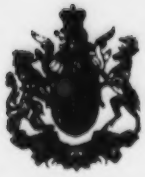
Report of the Provincial Auditor

to the Legislative Assembly
of Saskatchewan

2000 Spring Report



Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Telephone: (306) 787-6398
Fax: (306) 787-6383

E-mail: info@auditor.sk.ca
Website: http://www.auditor.sk.ca/

ISSN 0581-8214

Vision

We envision effective, open and accountable government.

Mission

We serve the people of Saskatchewan through the Legislative Assembly.
We are committed to fostering excellence in public sector management and accountability.

100-05123/

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

SASKATCHEWAN

Phone: (306) 787-6366
Fax: (306) 787-6383
Internet e-mail: fwendel@auditor.sk.ca

May 17, 2000

The Honourable Ronald Osika
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2000 Spring Report*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act.*

Respectfully yours,

Fred Wendel, CMA, CA
Acting Provincial Auditor

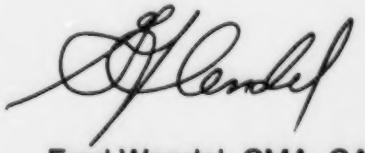
/dd

Foreword

Mr. Wayne Strelioff, CA, resigned as Provincial Auditor effective April 19, 2000. Mr. Strelioff accepted an appointment as Auditor General for British Columbia. Under *The Provincial Auditor Act*, I was appointed Acting Provincial Auditor.

I am pleased to present my *2000 Spring Report* to the Legislative Assembly. This Report focuses on the results of our work at government organizations with years ended December 31, 1999.

I wish to thank all the staff and officials of the government organizations audited by my Office for their co-operation and assistance. Also, I wish to thank the staff of my Office for their constant pursuit of excellence in public sector management and reporting practices.



Regina, Saskatchewan
May 17, 2000

Fred Wendel, CMA, CA
Acting Provincial Auditor

Table of Contents

Chapter	Topic	Page
	Observations	i
1	Towards a better public accountability system	1
2	Crown Investments Corporation of Saskatchewan	27
3	Rate regulation in the public sector	37
4	Post-Secondary Education and Skills Training	49
5	Workers' Compensation Board	71
6	SaskPower	77
7	Saskatchewan Water Corporation	91
8	Pensions	107
9	Municipal Affairs, Culture and Housing	137
10	Saskatchewan Telecommunications Holding Corporation	145
11	Health	153
12	An overview of privacy	165
13	Agriculture and Food	183
14	Education	191
15	Highways and Transporation	197
16	Justice	203

Table of Contents

Chapter	Topic	Page
Appendix 1	*The Provincial Auditor Act*	1-1
Appendix 2	List of organizations subject to an examination under *The Provincial Auditor Act*	2-1
Appendix 3	Audits not completed at April 30, 2000	3-1
Appendix 4	Organizations where we found no significant matters to report to the Legislative Assembly	4-1
Appendix 5	Examples of opinions we form on departments, Crown agencies and Crown-controlled corporations	5-1
Appendix 6	Special Report by the Provincial Auditor to the Legislative Assembly of Saskatchewan regarding Changes to *The Provincial Auditor Act*	6-1

Observations

Introduction iii

Accountability Relationships iii

Progress in improving public accountability iii

Public accountability concerns iv

Workers' Compensation Board vii

Progress and concerns viii

Our 2000 Reports ix

This page left blank intentionally.

Introduction

In this 2000 Spring Report to the Legislative Assembly, we set out the conclusions, findings, and recommendations of our Office pertaining primarily to the audits of government organizations with fiscal years ended on or before December 31, 1999.

In the fall of 2000, we plan to report on our Office's audits of government organizations with fiscal years ended on or before March 31, 2000.

Accountability Relationships

Much of this Report is about establishing or maintaining sound public accountability relationships in law between the Executive Government (Government) and the Legislative Assembly. Respect for the law makes our parliamentary system of government work.

The Legislative Assembly is a governing body. The Government receives its powers and resources from the Assembly. The Government is accountable to the Assembly for its use of the powers and the resources entrusted to it. The Assembly needs to receive relevant and reliable information about the Government's planned and actual performance to hold it accountable.

Progress in improving public accountability

The Government's public accountability continues to improve. In this Report, we identify several changes and planned changes that show the Government is working to improve its public accountability. The changes will continue to require leadership, time and hard work. We encourage legislators to support the Government in its efforts to improve its public accountability.

On December 6, 1999, the Government announced in the Speech from the Throne that it had begun a "comprehensive government accountability project". In the Budget Address on March 29, 2000, the Government set out more information on this important initiative intended to improve the Government's ability to report its performance to the public. We are working with the Government to support this initiative by identifying best practices. We commend the Government for taking this initiative. We see

it as an important step towards developing a plan for the Government as a whole.

We set out the key elements of a sound public accountability system in Chapter 1. We discuss in the Chapter the risks the Assembly faces in achieving its objective of holding the Executive Government accountable for its performance. We recommend the Assembly establish in law a sound public accountability system. The law should set out an accountability system that applies to all parts of the Government and that emphasizes three key elements:

- agreed upon plans (that are clear as to responsibilities, authorities, performance expectations, and resources needed),
- reliable reports on performance, and
- reasonable reviews of performance.

We also assess how well current laws establish a sound public accountability system between the Government and the Assembly.

We report in Chapter 2 that the Crown Investments Corporation of Saskatchewan (CIC) is making good progress in improving accountability. CIC uses a performance measurement system called the "Balanced Scorecard" for itself and its subsidiary corporations such as SaskPower. This system will result in reports on planned and actual performance. The Balanced Scorecard is used to evaluate financial performance, as well as achievement of targets in the areas of innovation and growth, customer satisfaction and public policy.

CIC approved a policy in January 2000 requiring public reporting of key elements of the Balanced Scorecard in the annual reports of CIC and its subsidiaries. The policy sets minimum disclosure requirements for the annual reports for 2000 and additional requirements for the year 2002. We also commend CIC and Saskatchewan Transportation Company for presenting a summary of Balanced Scorecard information in their 1999 annual reports.

Public accountability concerns

In this Report, we also point out where accountability relationships need to improve and where the Assembly needs to exercise caution to ensure existing sound established public accountability systems continue.

The 1999 Speech from the Throne stated the Government intended to change *The Provincial Auditor Act*. We said, in our 1999 Fall Report – Volume 2, that we would seek the advice of the Standing Committee on Public Accounts. We want the Committee's advice so we can propose changes to the Minister of Finance. We wanted to prepare those changes before the Minister of Finance introduced specific legislative changes. The Committee is the appropriate body to recommend changes to the Act. The Committee's mandate is to work with the Provincial Auditor to achieve maximum accountability of the Government to the Assembly.

We also said we would keep the Assembly informed. Several events have occurred since we last reported on changes to the Act.

We made a Special Report to the Legislative Assembly on February 17, 2000 regarding changes to *The Provincial Auditor Act*. We include the Special Report in Appendix 6. The purpose of the Report is to obtain the views of the Standing Committee on Public Accounts on whether changes to the Act are necessary to strengthen the accountability of the Government to the Assembly.

In the Special Report, we suggest the Committee use a risk management approach. A focus on risk will help the Committee to consider whether changes to the Act are required to achieve the Assembly's objective of holding the Government accountable for its use of the powers and resources entrusted to it. We make several recommendations to reduce the Assembly's risks. At May 12, 2000, the Standing Committee on Public Accounts has not met to consider the Special Report.

The Government provided our Office with changes the Government was considering on February 9, 2000. The Government was seeking our views on those changes before proceeding.

On February 17, we provided our comments on the changes. We expressed concern that the changes would weaken the Office's ability to help the Legislative Assembly hold the Government accountable. We asked the Government to wait until the Standing Committee on Public Accounts discussed our special report and we drafted proposed amendments. Once that process was finished, we planned to consult with government officials and provide the Minister of Finance with a copy of our proposed amendments to help the Government decide what amendments it wishes to support.

The Minister of Finance advised us on March 14, 2000 that consultation on changes to the Act should continue. The Minister also advised that he was establishing an advisory committee to provide him with a sounding board for assessing the proposed changes.

We will continue to keep the Assembly informed about the changes to *The Provincial Auditor Act*. When the Government proposes the changes to the Act to the Assembly, we will make a special report to the Assembly setting out our Office's views on the changes.

In Chapter 3, we discuss how rate regulation for Crown corporation monopolies may affect the accountability relationship of the Government to the Assembly. Establishing appropriate accountability relationships for regulating rates charged by public sector organizations is complex. The Chapter provides legislators with advice on establishing appropriate accountability relationships as they consider different models for determining the rates charged by Crown corporation monopolies. Legislators and the public have expressed concern with how rates are set. The Government has appointed an interim rate review panel to provide advice on setting rates. We hope this Chapter will help legislators as they consider how best to set rates for Crown corporation monopolies.

In Chapter 4, we continue to urge the Department of Post-Secondary Education and Skills Training to establish clear accountability relationships with post-secondary institutions such as the universities and the Saskatchewan Institute of Applied Science and Technology (SIAST). The Department needs to do this to develop a sector-wide plan. The Department needs such a plan to determine if the costs of post-secondary education are appropriately shared. Legislators and the public could use such a plan to understand how all the components of post-secondary education fit together.

Accountability relationships require clear responsibilities and authorities. With both federal and provincial laws governing privacy in Saskatchewan, responsibilities and authorities are not clear. In Chapter 12, we discuss the need to clarify responsibilities and authorities related to privacy. The Chapter also describes how, in order to manage well, the Government must balance its need for information to deliver programs with the privacy rights of citizens.

Workers' Compensation Board

In Chapter 5, we discuss our audit of the Workers' Compensation Board (WCB). In our 1999 Fall Report – Volume 2, we advised the Assembly that the protocols established for a sound management and auditor relationship were not followed for the 1998 audit of the WCB. The protocols are contained in a document titled *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. As a result, at December 1999, we had not yet completed our 1998 audit of the WCB. We reported the WCB advised us it would follow the protocols for the 1999 audit.

The WCB and the appointed auditor did not follow the management/ auditor protocols as well as we had expected for 1999. As a result, we did not finish all of our work in time for this Report.

We did complete our audit of the WCB's 1998 and 1999 financial statements. We are pleased to report that the WCB has changed its accounting practices. These changes eliminate the confusion about WCB's reported financial results and will improve public confidence in this important public agency. At May 16, 2000, we report that the 1999 financial statements are reliable.

In our 1999 Spring Report, we recommended that the WCB amend and reissue its 1998 financial statements because of errors in how it reported certain employer rebates. We wanted the Assembly to have reliable financial statements about the WCB's performance for 1998. The WCB addressed this concern with the 1998 financial statements by changing the 1998 comparative figures presented in the 1999 financial statements.

At May 16, 2000, we have not completed our audit to determine the adequacy of the WCB's rules and procedures to safeguard and control its assets and the WCB's compliance with authorities. We will report the results of this work in a future report.

For the past two years, we have been unable to provide the Assembly with the timely information it needs about the WCB because management and the appointed auditor have not followed the established management/ auditor protocols. To ensure the Assembly is served properly, and to ensure WCB can plan accordingly, we will inform the WCB of the extent of our direct audit work for the 2000 audit.

Progress and concerns

In this section, we highlight the progress that several government organizations have made to strengthen their performance. We also note where more work is required.

We congratulate SaskPower in Chapter 6 for publicly reporting the key issues and risks facing the corporation. We encourage government organizations to provide legislators and the public with information about their key risks and how they manage those risks. We also report that SaskPower has made significant progress in addressing the recommendations made in our 1998 Fall Report - Volume 2.

In Chapter 7, we report that Saskatchewan Water Corporation did not have adequate investment management practices for its investment in the potato industry from 1996 to late 1998. Until late 1998, most of SaskWater's objectives for its investment in the potato industry were not clear or measurable. Also, SaskWater did not consistently evaluate the risks that could prevent it from achieving its objectives and did not consistently analyze the costs and benefits of its planned actions. In addition, SaskWater did not decide the measures it should use to assess the extent to which it achieved its objectives for the investment.

For 1999, SaskWater's investment management practices for its investment in the potato industry were adequate.

In Chapter 9, we again report that the Trustees of the First Nations Fund have prevented us from carrying out our responsibilities to the Legislative Assembly. As a result, the Assembly does not receive sufficient information to hold the Government fully accountable for its use of the public money the Assembly gives to this Fund. We have not audited the Fund since the Assembly established the Fund. The Fund has received $22.2 million since it was set up in 1997. The mandate of the Fund is to carry out economic development, social development, justice, health and other initiatives related to First Nations' people.

We report on the Government's investment management practices for its pension plans and how it selects investment managers in Chapter 8. We provide a progress report on how well the Government has addressed the recommendations made in our 1998 and 1999 Spring Reports regarding the Government's pension plans. We advise the Assembly that the Government is facing serious cash flow requirements totalling

approximately $10 billion over the next 25 years. We point out that the Public Accounts Committee requested the Government to examine the cash flow issue and report back to the Committee.

Our 2000 Reports

In 2000, our Office has issued the following reports to the Assembly:

- *Business and Financial Plan For the Year Ended March 31, 2001: As Presented to the Board of Internal Economy*;
- *Special Report by the Provincial Auditor to the Legislative Assembly of Saskatchewan regarding Changes to The Provincial Auditor Act: February 2000*; and
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on the 1999 Financial Statements of CIC Subsidiary Crown Corporations: April 2000.*

If you wish to obtain copies of these reports, or wish to discuss or receive presentations on the contents of any of these reports, please:

- visit our website at:
http://www.auditor.sk.ca/

-contact our Office by Internet e-mail at:
info@auditor.sk.ca

- or, write, phone or fax us at:
Provincial Auditor Saskatchewan
1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7
Phone: (306) 787-6398
Fax: (306) 787-6383

The staff at the Office of the Provincial Auditor of Saskatchewan are:

Ahmad, Mobashar
Anderson, Mark
Atkinson, Brian
Bachelu, Gaylene
Baronowsky, Tricia
Beblow, Jolene
Black, Bob
Borys, Angèle
Brezinski, Curtis
Burrows, Jamie
Clemett, Tara
Creaser, Phil
Daviduik, Krista
Deis, Kelly
Dickin, Deann
Duran, Jason
Duran, Joel
Ferguson, Judy
Forgie, Leanne
Fysh, Cindy
Grabarczyk, Rod
Harasymchuk, Bill
Harrison, Garnet
Heffernan, Mike
Jersak, Rodd
Kenny, Wade
Kinvig, Amy
Knox, Jane
Kodas, John
Kress, Jeff
Kucher, Tara
Kuntz, Linda
Lahti, Jay
Lahti, Kami
Lees, Trina
Lowe, Kim
Markewich, Dale
Martens, Andrew
Matchett, Joanne
Montgomery, Ed
Nyhus, Glen
Oldershaw, Mark
Orrange, Loyd
Paul, Charlene
Paul, Kent
Pradhan, Karim
Richter, Angie
Rybchuk, Corrine
Salman, Salma
Schiller, Rita
Schwab, Victor
Shorten, Karen
Smith, Curtis
Smith, Shana
Sommerfeld, Regan
Strecker, Rena
Szaroz, Jennifer
Talbot, Marj
Tomlin, Heather
Volk, Rosemarie
Walker, Sandra
Watkins, Dawn
Wendel, Fred
Wendel, Leslie

Towards a better public accountability system

1

Executive summary 3

Glossary 4

Introduction 5

Essential elements of a sound public accountability system 5

Sustaining a sound public accountability system 7

Our analysis of the current public accountability system 8

Setting the Government's Responsibilities 9

Setting the Government's Authorities 10

Agreement on performance expectations and resources 12

Reliable reports on performance 15

Reasonable review of performance 18

Our future plans 21

Exhibit 1 – Modernizing Accountability 22

Exhibit 2 – Elements of a strategic plan 23

Exhibit 3 – Principles for performance reporting 24

Selected References 25

This page left blank intentionally.

Executive summary

An important objective of the Assembly is to hold the Executive Government accountable for its use of the powers and the resources entrusted to it by the Assembly. Well-managed governing bodies are those that identify, assess, and accept or reduce to an acceptable level, the key risks their organizations face as they work to achieve their objectives. We suggest the Assembly consider a risk management approach to help it achieve its objectives.

The Legislative Assembly is a governing body. The Executive Government receives its powers and resources from the Assembly. Therefore, the Executive Government is accountable to the Assembly for the Government's use of its powers and the resources entrusted to it.

One of the key risks to the Assembly of not achieving its objective of holding the Government accountable is that the Assembly will not have relevant and reliable information on the Government's planned and actual performance. To help address this risk, the Assembly needs a public accountability system that ensures the Government provides the Assembly with reliable and timely performance information.

A sound public accountability system would ensure there are:

- agreed upon plans (that are clear as to responsibilities, authorities, performance expectations, and resources needed);
- reliable reports on performance; and
- reasonable reviews of performance.

The purpose of this Chapter is to give our assessment of the risks to the Assembly of not having a sound public accountability system and how the Assembly currently addresses those risks. We hope this Chapter will help the Assembly to encourage and guide the Government's important initiative to improve its accountability to the Assembly and the public.

Moving to a sound public accountability system will not be easy. It will take time, effort and resources.

Glossary

Control – comprises those elements of an agency (including its resources, systems, processes, culture, structure, and tasks) that, taken together, support people in the achievement of the agency's objectives.

Goal – a general statement of desired results for the long term.

Key sectors – government programs provided by several agencies (e.g., education, health) and cross-government strategies (e.g., The Child Action Plan, Partnership for Growth).

Objective – a specific statement of results to be achieved.

Outcome – the result or consequence of the activities.

Output – the product of the action plans.

Performance – how well an organization or program is accomplishing what is intended in relation to expectations or past accomplishments.

Performance measure – a factor chosen to monitor success in achieving objectives.

Risk – the possiblility that an organization will experience adverse consequences from events or circumstances that may impair the organization's ability to achieve its objectives.

Strategy – the general action that can be used to meet objectives and achieve goals.

Introduction

Accountability is a concept fundamental to our democratic system of government. Accountability establishes the right of citizens to know what government intends to achieve on their behalf and how well it has met those intentions. It means that governments are answerable to legislators for the way in which they manage the powers and resources entrusted to them and for the results they achieve (see Exhibit 1 on page 22).

Increasingly, both citizens and governments are recognizing the need for full disclosure of how governments and their agencies are performing. In December 1999, the Government of Saskatchewan announced in the Speech from the Throne that it plans to implement a comprehensive government accountability project. This project is designed to establish an accountability system that will change the focus of the Government and its agencies from resources used and activities completed (inputs and outputs) to a focus on what was achieved (outcomes).

The March 2000 *Budget Address* describes the Government's accountability project and its implementation: *The research and development phase of the project is complete, resulting in the new Accountability Framework. Implementation of the strategic planning component has started, on a pilot basis, in seven departments. Over the next year, all government departments will develop strategic plans and begin to implement the performance management component, including performance measures. The third and final component of the project is improved public reporting of strategic plans and results.* We commend the Government for this important initiative.

The purpose of this Chapter is to give our assessment of the risks to the Assembly of not having a sound public accountability system and how the Assembly currently addresses those risks. We hope this Chapter will help the Assembly to encourage and guide the Government's important initiative to improve its accountability to the Assembly and the public.

Essential elements of a sound public accountability system

An important objective of the Assembly is to hold the Executive Government accountable for its use of the powers and the resources entrusted to it by the Assembly. Well-managed governing bodies are those

that identify, assess, and accept or reduce to an acceptable level, the key risks their organizations face as they work to achieve their objectives. We suggest the Assembly consider a risk management approach to help it achieve its objectives.

The Legislative Assembly is a governing body. The Executive Government receives its powers and resources from the Assembly. Therefore, the Executive Government is accountable to the Assembly for the Government's use of its powers and the resources entrusted to it.

One of the key risks to the Assembly of not achieving its objective of holding the Government accountable is that the Assembly will not have relevant and reliable information on the Government's planned and actual performance. To help address this risk, the Assembly needs a public accountability system that ensures the Government provides the Assembly with reliable and timely performance information.

A sound public accountability system would ensure there are:

- agreed upon plans (that are clear as to responsibilities, authorities, performance expectations, and resources needed);
- reliable reports on performance; and
- reasonable reviews of performance.

Agreement between the Assembly and the Government on its responsibilities and authorities clarifies the authority the Government has to manage the responsibilities assigned to it by the Assembly. Agreed upon plans provide clarity and understanding for the Assembly and the Government on performance expectations and the resources required to achieve those expectations. Without this agreement and understanding between the Assembly and the Government, there is little hope for effective performance and accountability.

Business and financial plans (strategic plans) help the Assembly debate and approve what the Government expects to achieve in the near and distant future and the expected cost of achieving those results. A Government-wide plan sets the Government's overall priorities, objectives and performance measures. This plan provides direction to government agencies in preparing their plans. Agreed upon plans help the Assembly understand the Government's priorities and resource tradeoffs between

individual agencies and key sectors in the context of the Government as a whole.

Once agreed upon plans are in place, the Assembly needs reliable reports on performance to assess results and costs for the Government as a whole, for key sectors and for individual agencies in relation to the Assembly's expectations. Effective annual reports focus on outcomes and explain differences between planned and actual results.

To complete the accountability process, the Assembly must perform a reasonable review of the Government's and its agencies' performance and take corrective action when required. Only the Assembly or its committees can perform this function because it is the Assembly that gives the Government responsibility and authority to raise revenue and spend public resources. Also, legislators have an obligation on behalf of their constituents to assess the Government's performance. Informed discussion and debate on the Government's accountability and performance will help build public confidence in our system of government.

Sustaining a sound public accountability system

Moving to and sustaining a sound public accountability system that is focused on results will not be easy. It will take time, effort and resources. It will take the leadership and long-term commitment of legislators and senior government officials. It will require a re-balancing of central government controls and managerial autonomy to give managers the flexibility to manage for results instead of focusing on activities and compliance with rules. It will require performance incentives that reward the achievement of expected results.

Legislation setting out the key elements of a public accountability system would help to sustain such a system. Respect for the law makes our parliamentary system of government work. Accountability legislation would help the Assembly to reduce its risk of not obtaining relevant and reliable information on the Government's performance and acting on that information. In other words, this legislation would ensure the Assembly is not prevented from holding the Government accountable.

In addition, this accountability legislation would:

- foster and focus debate in the Assembly on the Government's performance and on improving accountability;
- provide a consistent format and a common vocabulary that would assist the Assembly and the public in understanding accountability information;
- through the process of preparing the legislation, give citizens the opportunity to suggest improvements to the accountability system through their elected members;
- foster comparable information across agencies; and
- promote improved public confidence in our parliamentary system of government.

1. **We recommend the Government propose to the Assembly legislation establishing a sound public accountability system that includes:**

   - **agreed upon plans for the Government as a whole, for key sectors and for individual agencies that are clear as to responsibilities, authority, performance expectations, and resources needed,**
   - **reliable and timely reports on performance for the Government as a whole, for key sectors and for individual agencies, and**
   - **reasonable reviews of performance by committees of the Assembly.**

Our analysis of the current public accountability system

In the remainder of this Chapter, we discuss our views on the Assembly's risks of not having a sound public accountability system and how the Assembly currently addresses those risks. We have grouped these risks into five areas:

- setting the Government's responsibility,
- setting the Government's authority
- agreeing on performance expectations and resources needed,
- receiving reliable reports on performance, and
- carrying out reasonable reviews of performance.

For each of these five topics, we set out:

- the Assembly's risks associated with each topic,
- why the Assembly should address these risks, and
- how well the Assembly currently addresses these risks.

Setting the Government's Responsibilities

The Assembly's risks

The Assembly may not be able to hold the Government and its agencies accountable for the powers and resources entrusted to them if:

- the responsibilities of the Government and its agencies are not clearly set out; and

- the Governments' and its agencies' responsibilities do not include ensuring public resources are safeguarded and controlled, used for the purpose intended by the Assembly, and achieve expected results or outcomes.

Why the Assembly should address these risks

To be accountable to the Assembly, the Government and its agencies must be answerable (responsible) for the powers and resources entrusted to them. When the responsibilities of the Government and its agencies are clearly set out, the Assembly is better able to ensure that they carry out their responsibilities.

The Government and its agencies receive their responsibilities from laws. Unlike citizens and private organizations who can do anything not prohibited by laws, the Government's responsibilities are limited to those set out in laws.

Making the Government and its agencies responsible to safeguard and control public resources, to use those resources for the purpose intended by the Assembly, and to achieve expected results or outcomes would result in better management of public resources and improved accountability.

How the Assembly currently addresses these risks

The Assembly has not clearly set out the responsibilities of the Government and its agencies to ensure they safeguard and control public resources, use those resources for the purpose intended, achieve expected outcomes, or comply with governing laws.

Some of the Government's and its agencies' responsibilities can be inferred from legislation. For example, laws often describe the Government's and its agencies' powers. These powers infer that the Government and its agencies should only use resources for the purpose intended. However, the responsibility for the Government and its agencies to use resources only for the purpose intended is not clearly set out in law.

Setting the Government's Authorities

The Assembly's risks

The Assembly may not be able to hold the Government and its agencies accountable for the powers and resources entrusted to them if:

- it does not provide the Government and its agencies the necessary authority to carry out their responsibilities; and
- it provides central agencies with powers to unduly restrict the authority of individual agencies to make decisions.

Why the Assembly should address these risks

Authority is the power to make and act on decisions within defined limits. An agency cannot reasonably be held responsible or accountable for its performance if it does not have the authority to act.

Authority implies autonomy. Autonomy means reasonable independence from the influence of others within set limits. If an agency does not have the necessary autonomy to make decisions, its authority is undermined.

Vital to a sound accountability system is an understanding of the relationship between autonomy and accountability. Over the years, our Office has noticed ongoing confusion between these two concepts. Some argue that to strengthen the accountability of an agency, the agency should have less autonomy. This action has the opposite effect. When the autonomy of an agency is weakened, the agency becomes less accountable for its performance because it cannot be held accountable for decisions made by others.

Also, some argue that because an agency has more autonomy, that agency should be less accountable. All agencies earn autonomy through being accountable for their performance. All agencies should have the required autonomy and should be held accountable for their decisions and performance.

Our system of government has a long tradition of ministerial accountability. Ministers must remain accountable to the Assembly for the performance of their departments and agencies. Ministers must also remain accountable to Cabinet. Many important decisions of Ministers require the prior approval of Cabinet. To make the Government and its agencies accountable for their performance, the Assembly must give them the necessary authority and autonomy to carry out their responsibilities (i.e., safeguard and control public resources, use resources for intended purposes, achieve expected results and comply with the law). Cabinet, in turn, must ensure it gives its Ministers and agencies needed authority and autonomy to carry out their responsibilities.

How the Assembly currently addresses these risks

Over the years, legislators and governments have created detailed rules in laws, regulations, and directives to ensure public money was safeguarded and used for the purposes intended. Through laws, the Assembly has given Cabinet, Treasury Board and central agencies power to make decisions for, and enforce detailed controls and rules upon, individual agencies that carry out public policies and programs.

Current laws give central agencies power to limit government managers' decisions on how they plan and manage, who they hire, what they

purchase, and how they manage annual surpluses and deficits. Central agencies include Treasury Board, the Provincial Comptroller's Office, the Public Service Commission, the Saskatchewan Property Management Corporation, the Crown Investments Corporation of Saskatchewan and others.

While reasonable limits on the Government and individual agencies are necessary, detailed controls and rules have the unintended consequence of undermining managerial authority and accountability. Government managers cannot manage for results, i.e., achieve expected outcomes at a reasonable cost, if they do not have the authority to make decisions and act on them.

The Assembly, Cabinet, Treasury Board, and central agencies should consider shifting the balance between detailed central controls to greater managerial autonomy needed by individual agencies to achieve results. Treasury Board and central agencies should establish appropriate accountability relationships with agencies to hold them accountable for results and costs and to take corrective action where agencies are not achieving expected results. These accountability relationships should be modelled after our Recommendation on page 8. We recognize that establishing these accountability relationships will take time.

Agreement on performance expectations and resources

The Assembly's risks

The Assembly may not be able to hold the Government accountable if the Assembly and the Government have not agreed:

- on the amount of resources needed for the Government as a whole, for key sectors of government, and for each agency;
- on what results the Government as a whole, key sectors of government, and each agency plan to achieve with the resources they are requesting and how they plan to achieve the results; and
- on how the Government as a whole, key sectors, and each agency will measure progress towards their goals and objectives.

See Exhibit 2 on page 23 for further information on the key elements of strategic plans.

Why the Assembly should address these risks

The Assembly needs to know the expected results and costs for the Government as whole, for key sectors of government, and for each agency. The Assembly also needs to know how the expected costs will be funded (e.g., taxes, user fees, debt). This information would allow the Assembly to assess the expected results and costs in relation to the Assembly's expectations.

To obtain this information, the Assembly needs to receive strategic plans from the Government as whole, from key sectors, and from each agency. The Assembly should use these plans during the Estimates process when approving the resources for the Government as whole, for key sectors, and for individual agencies.

The Assembly must obtain and use information contained in strategic plans to assess the Government's planned results in relation to the Assembly's expected results. Specifically, the Assembly needs to determine:

- Which products and services the Government as whole, key sectors, and each agency plan to deliver.

- How the Government as a whole, key sectors, and each agency will measure progress towards the achievement of their goals and objectives (i.e., their performance measures and targets).

- The requests for resources are based on the annual and long-term goals, objectives, strategies, and action plans of the Government as whole, key sectors, and each agency.

- The estimated revenues, operating expenses, capital expenses, debt repayments, and increases in borrowing for the Government as a whole, key sectors, and each agency. To be reliable, this information should be prepared in accordance with generally accepted accounting principles set by The Canadian Institute of Chartered Accountants.

  Resource requests should be accompanied with information providing a long-term context to help the Assembly to understand and assess the requests. For example, members should be provided with actual revenues and expenditures for at least the

previous two years and forecasts of revenues and expenses for at least three years into the future.

- Whether the information in the Government's plans is reliable. The Assembly needs independent audit assurance that plans include all essential elements of strategic plans and the assumptions for the plans are reasonable.

To ensure the Assembly and the public have the opportunity to review and assess the Government's plans, all plans should be made public before the beginning of the period covered by the plans.

How the Assembly currently addresses these risks

The Financial Administration Act requires the Government to give the Assembly annual *Estimates* prepared in the form approved by Treasury Board.

These annual *Estimates* do not:

- include strategic plans for the Government as a whole, for key sectors, or for individual agencies. The *Estimates* include only the funding departments and agencies receive from the General Revenue Fund (GRF). As a result, about 40% of the Government's planned costs, revenues, and results are excluded from the *Estimates* (e.g., Crown corporations and other sources of funding for departments);

- Set out what results the Government as whole, key sectors, and each agency expect to achieve (goals and objectives) or how they will know whether they have achieved their expected results (i.e., performance measures and targets);

- Link requests for resources to goals, objectives, and strategies for the Government as whole, for key sectors, and for each agency;

- show the estimated revenues, operating expenses, and capital expenditures for the Government as a whole or for its key sectors; and

- contain independent audit assurance that the information in the Government's plans is reliable.

Reliable reports on performance

The Assembly's risks

The Assembly may not be able to hold the Government accountable if the Assembly does not receive timely, relevant and reliable reports for the Government as a whole, for key sectors of government, and for individual agencies that:

- cover financial performance, operational performance and the degree of compliance with governing authorities;
- describe long-term goals and objectives, strategies, cost of strategies, performance measures, targets, and actual results compared to planned results;
- identify key risks to achieving objectives;
- include an assessment of the effectiveness of the control established to help achieve objectives and to manage key risks; and
- describe who received public money and the amounts.

Why the Assembly should address these risks

The Assembly needs to know the Government's results and the costs to achieve those results compared to expected results and costs. This information would allow the Assembly to assess the Government's results and costs in relation to the Assembly's expectations. We recognize that preparing such reports and establishing the required information systems will take time and resources.

Annual reports should be prepared for the Government as a whole, that is, all government agencies included in the Government's Summary Financial Statements. This information would help the Assembly assess the overall direction and achievements of the Government, and resource allocations and trade-offs among key sectors and individual agencies.

Annual reports should cover key sectors of government and major intergovernmental programs. Examples of key sectors are health and

education. Examples of intergovernmental programs are The Child Action Plan and The Poverty Reduction Strategy.

Annual reports of government agencies should include performance information on the organizations and individuals that provide public services for the agencies (transfer payments). Those organizations and individuals include school boards, universities, municipalities, community-based organizations, and health professionals. Over 50% of annual spending from the General Revenue Fund goes to organizations and individuals who provide public services. The Assembly needs to be able to hold the Government accountable for this major spending.

Annual reports should cover financial performance, operational performance and the degree of compliance with governing authorities.

Reports on financial performance would help the Assembly understand how well an agency is achieving its financial objectives. Annual financial statements are the major source of information on financial performance. They show an agency's financial position (what is owned and owed), the results of operations (revenues and expenses) compared to budget, and cash flows (cash receipts and payments). All government agencies, including departments, should prepare annual financial statements that comply with generally accepted accounting principles set by The Canadian Institute of Chartered Accountants.

Reports on operational performance would help the Assembly to assess an agency's achievements relating to its legislative mandate and mission. Operational reports focus on outcomes and include information on the costs of key strategies designed to achieve outcomes.

Reports on legislative compliance would help the Assembly to monitor an agency's degree of compliance with governing laws and related authorities.

Annual reports should describe what the agency tried to achieve (i.e., its mission, goals and objectives). Reports should include key strategies to achieve objectives and current progress in achieving objectives set out in a measurable manner (e.g., audited financial statements and key performance measures and targets). Reports should explain differences between planned and actual results. This information would allow the Assembly to assess the Government's results compared to the Assembly's plans.

Annual reports should set out the key risks the agency faces in achieving its objectives. Reports should include an assessment of the effectiveness of the control established to help achieve objectives and to manage key risks. This information would help the Assembly to understand the key risks the Government faces in achieving its objectives and to assess how the Government is managing those risks.

Annual reports should make public business public. The public has the right to know what the Government does with the public's money. Annual reports should include this information. For example, the Assembly wants to monitor who gives money to political parties and candidates and who gets public money. This information would help the Assembly to ensure agencies spend public money objectively and would help to build public confidence by ensuring the use of public money is transparent.

The Assembly must have independent audit assurance that the Government's annual reports are reliable and contain all of the information described previously.

The Assembly and the public need timely information; late information is often not useful. Annual reports should be made public within 120 days after the agency's fiscal year end.

See Exhibit 3 on page 24 for principles for performance (annual) reports.

How the Assembly currently addresses these risks

The Assembly requires most agencies to give it annual reports including audited financial statements and information on their businesses or activities. The Assembly does not require government departments' annual reports to include financial statements. The Assembly requires the Government to provide audited annual financial statements for the Government as a whole, but not an annual report showing the performance for the Government as a whole. The Government is not required to report on the performance of recipients of transfer payments (e.g., school boards, municipalities).

In addition, laws do not require annual reports to provide the Assembly with information on:

- the Government's and its agencies' degree of compliance with governing authorities;

- long-term goals and objectives, strategies, costs of strategies, performance indicators and targets, and actual results compared to planned results;

- key risks to achieving objectives; and

- an assessment of the effectiveness of the control established to help achieve objectives and to manage key risks.

The Assembly wants to know who gave money to political parties and candidates and who receives money from government agencies. *The Elections Act, 1996* requires political parties and candidates to report publicly who gave them money. However, the Assembly has not enacted any laws requiring government agencies to provide a list of persons who received public money.

At the direction of Treasury Board, in consultation with the Standing Committee on Public Accounts, the Assembly receives this information on about 60% of Government spending. Many agencies do not provide this information to the Assembly. In Chapter 15, Executive Council, of our 1999 Fall Report – Volume 2, we more fully describe this issue.

Also, the Assembly does not require agencies to provide it with timely annual reports. *The Tabling of Documents Act* does not require timely release of annual reports resulting in many annual reports being given to the Assembly and made public later than 12 months after the agencies' fiscal year end.

Bill No. 26, an act to amend *The Tabling of Documents Act, 1991* is being considered by the Assembly at the date of this Report. When enacted, this new legislation will result in more timely public release of annual reports. For fiscal years ending after March 31, 2002, all annual reports must be made public within 120 days after the fiscal year ends.

Reasonable review of performance

The Assembly's risks

The Assembly may not be able to hold the Government accountable for the powers and resources entrusted to it if the Assembly does not effectively monitor the performance of the Government and take corrective action.

Why the Assembly should address these risks

The final phase of the accountability system is a reasonable review of performance. An accountability system without follow-up is clearly incomplete and unlikely to be effective. Only Members of the Legislative Assembly (MLAs) can perform this function because it is the Assembly that gives responsibility and authority to the Government to raise revenue and to spend public resources.

The accountability system described in this Chapter is meant to achieve a positive relationship between the Assembly and the Government whereby officials want to be accountable and indeed feel accountable as a result of the relationship. MLAs reviewing the Government's results (annual reports) consider what has been accomplished in light of what was expected (strategic plans) and the circumstances that existed, and then recognize achievements as well as areas needing improvements.

The Assembly's review of an agency's performance need not be an unpleasant experience, either for MLAs or officials. The focus of the review should be on improving results and moving forward. During reviews, MLAs have the opportunity to discuss the agency's progress towards its objectives, the agency's stewardship of public resources and to recommend changes, if necessary. This review of the agency's performance is one of the Assembly's best opportunities to influence an agency's planned and actual performance in future years. This review provides a public forum for government officials to highlight their successes and to discuss future strategies for needed improvements.

As described earlier in this Chapter, we think the Assembly should review the Government's strategic plans as part of the Estimates process. Accordingly, the remainder of this section focuses on the Assembly's reviews of annual reports.

How the Assembly currently addresses these risks

The Assembly reviews certain government annual reports through two committees, the Standing Committee on Public Accounts (PAC) and the Standing Committee on Crown Corporations (CCC).

PAC has a broad mandate to work with the Provincial Auditor to hold the Government and its agencies accountable for their performance. PAC's mandate includes reviewing the annual Public Accounts and the Provincial

Auditor's reports. Traditionally, the Assembly has not referred agencies' annual reports to PAC for review.

CCC's mandate is to review the annual reports of Crown corporations and to question their operations. The Committee typically limits its reviews to the annual reports of Crown corporations that generate income from sources outside the General Revenue Fund.

We think the Assembly should automatically refer all annual reports to its committees for review. Automatic referral of annual reports to committees would ensure timely review of all annual reports by MLAs. Current laws do not require this except for *The Provincial Auditor Act* which automatically refers the Provincial Auditor's Reports received by the Assembly to PAC.

An essential part of the committees' reviews should be to determine if the Government-wide, key sectors, and individual agencies' annual reports contain all the required information (as described in this chapter) to assess performance. If annual reports do not contain the required information to assess performance, the committees should question officials about their performance in areas not covered by the reports. The committees should also recommend that the Government improve the information contained in its annual reports, when required.

To serve the Assembly's interest in holding the Government accountable for its performance, the committees reviewing annual reports need the following characteristics.

First, the committees' mandates should be to hold the Government accountable for its performance. This should be a broad mandate covering all aspects of performance planning, measurement and reporting. Second, the committees reviewing the Government's performance should not include Cabinet Ministers or Government-appointed officials. This would increase the committees' objectivity in their assessments of agencies' results. Third, the committees should consider working closely with the Provincial Auditor enabling MLAs to question the Provincial Auditor on the reliability of the agencies' reports. Fourth, to ensure timely reviews of annual reports, the Assembly should authorize the committees to meet when the Assembly is not in session. PAC meets all the above characteristics of an effective committee for the review of annual reports.

Our future plans

We have prepared this Chapter to promote discussion and debate on renewed public accountability. Building and sustaining a strong public accountability system is key to improved public confidence in our system of government. Development of this system will take time and the commitment of Members of the Legislative Assembly and senior Government officials to improved accountability.

In a future report, we plan to examine the challenges and barriers to moving to a system of accountability for results and whether existing laws support the key elements of a sound public accountability system set out in this Chapter.

Exhibit 1 – Modernizing Accountability

Basic to a discussion of the accountability is an understanding of the purpose of accountability. For many, unfortunately, accountability is apportioning blame and punishing wrongdoing. This perspective on accountability will likely always be around. But accountability can be and needs to be recast in a more positive and constructive light, and in a manner more consistent with current public sector realities and current management concepts. Accountability needs to be used as a means of improving management and governance in the public sector. We need to distinguish accountability from blameworthiness.

The table below highlights the directions accountability should go.

	Traditional Accountability	Performance Accountability
Perception	Emphasis on the negative function of finding blame	Positive guidance for sound performance
Scope	Inspection for compliance Individual blame	Learning for improved performance; providing an opportunity for demonstrating results
Management Style	Risk adverse Uniformity	Risk management Focus on results
Timing	Intermittent	Continuous, sustained
Role of Assembly	Reactive Constraining	Proactive Empowering
Objective	Maintenance of status quo	Adaptation Improvement

Source: Adapted from the Auditor General of Canada. (1997). "Modernizing Accountability in the Public Sector", Discussion Draft.

Exhibit 2 – Elements of a strategic plan

1. **What is the agency doing now?**
   - Set out the agency's mission and mandate.
   - Describe the environment in which the agency operates, including:
     - how forces, trends and key risks affecting the agency are taken into account in developing the Plan
     - third parties that provide services on behalf of the agency and the accountability relationships with the Agency
     - key stakeholders

2. **Where does the agency want to go?**
   - Set out the agency's vision and values
   - Describe what the agency is trying to achieve, including:
     - key strategic priorities and how they are aligned with government-wide priorities
     - goals and how they are in line with the mission, vision, priorities and government-wide plans
   - Describe objectives for each goal

3. **How does the agency want to get there?**
   - Describe strategies and action plans to accomplish each goal and objective, including:
     - how, when, and by whom each action plan will be accomplished
     - how actions are linked to goals and objectives
     - outputs and outcomes expected for each action plan
     - how and when key elements of the plan will be communicated to key stakeholders
   - Describe the expected cost for each action plan

4. **How will the agency know it has been successful?**
   - Describe how performance will be measured, including:
     - relevant, reliable, understandable performance measures that are focused on expected outcomes
     - relating performance measures to objectives
   - Describe how performance will be monitored and evaluated, including:
     - comparing actual results to targets
     - how corrective action will be taken if targets not met

5. **How will the agency finance, support, and communicate the Plan?**
   - The Plan should be supported by plans (or additional information) addressing finances (operating and capital), human resources, information technology and communications. Each of these plans should:
     - be directly linked to the priorities and objectives of the Plan, as well as to the government-wide plan and other supporting plans
     - set out priorities, goals, objectives, strategies, action plans and performance measures and targets
     - describe key risks and how these risks will be managed
     - in addition to the above, the financial plan should:
       i) show actual revenue and expenditures for the previous two years, forecast for the current year and estimates for two to four future years
       ii) identify all forecasting assumptions

Source: Our previous research and reports (e.g., 1997 Fall Report, Volume 1 – Government Plans and Performance Reports, and 1998 Fall Report – Volume 2 – Justice: Key Elements of a Sound Strategic Plan.

Exhibit 3 – Principles for performance reporting

1. **PERFORMANCE INFORMATION SHOULD BE *RELEVANT***
   - it relates to the stated objectives of the agency and its strategies and programs, and enables an assessment of the extent to which the objectives are being achieved;
   - it is reported in sufficient time to influence decisions;
   - it measures something that is significant in that it is used in forming assessments and judgements; and
   - it is aggregated at an appropriate and meaningful level.

2. **PERFORMANCE INFORMATION SHOULD BE *RELIABLE***
   - it is neutral and fair, in that judgements made on performance by users are not influenced by the way information is provided;
   - it is reasonably accurate and complete—that is, free from material error or omissions; and
   - it is capable of being replicated or verified by independent and knowledgeable observers.

3. **PERFORMANCE INFORMATION SHOULD BE *UNDERSTANDABLE***
   - it provides the minimum level of detail needed to enable users to gain a proper understanding of the activities and performance;
   - it focuses on a small set of key performance measures;
   - it explains the context as to what happened and why it happened, to enable users to judge whether performance is improving or declining; and
   - it includes comparative information from similar agencies and information regarding best practice, to provide users with a frame of reference for assessing performance.

Additional attributes: Performance reports should:

- include an assessment of the effectiveness of the *control* established to help achieve objectives;
- be *focused on results and achievements;*
- report in the *context of expectations* (plans);
- be *complete and unbiased* (i.e., cover both successes and shortcomings);
- *attribute achievements to activities* (how activities contribute to results);
- *relate costs to results; and*
- explain *strategies, risks and context* .

Source: Adapted from *Principles for Building a Public Performance Report – A discussion paper from Canada's legislative audit community*, 1999. CCAF. Ottawa. (The "CCAF-FCVI is a Canadian research and educational Foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit.")

Selected References

Alberta, Office of the Auditor General (1996). *Government Accountability Act, Statute of Alberta 1995, Chapter G-5.5 with amendments in force as of July 15, 1996.* Edmonton, Alberta: Queen's Printer for Alberta.

Alberta. Office of the Auditor General (1997, February). *Government accountability.* http:/www.oag.ab.ca/html/government_accountability.shtml (21 March 2000).

British Columbia. Office of the Auditor General of British Columbia. (2000). *Towards a more accountable government: Putting ideas into practice.1999/2000: Report 11.* http:www.oag.bc.ca. (21 March 2000).

Canada. Office of the Auditor General. (1983). Constraints to productive management in the public service. *Report of the Auditor General of Canada*, Chapter 2. http:www.oag-bvg.ga.ca/domino/reports.nsf/html/8302ce.html (6 March 2000).

Canada. Office of the Auditor General. (1988). Well-performing organizations. *Report of the Auditor General of Canada*, Chapter 5. http:www.oag-bvg.ga.ca/domino/reports.nsf/html/8804ce.html (6 March 2000).

Canada. Office of the Auditor General. (1992). The learning organization. *Report of the auditor General of Canada*, Chapter 5. http:www.oag-bvg.ga.ca/domino/reports.nsf/html/ch9205e.html (6 March 2000).

Canada. Office of the Auditor General. (1997). Moving toward managing for results. Report of the Auditor General of Canada, Chapter 11. html http:www.oag-bvg.ga.ca/domino/reports.nsf/html/ch9711e.html (3 February 1999).

CCAF-FCVI. (February 1999). *Leaders' symposium making accountability work.* Ottawa: CCAF-FCVI.

CCAF-FCVI. (1999, July). *CCAF Public performance reporting program. Principles for building a public performance report – A discussion paper from Canada's Legislative Audit Community.* Ottawa: CCAF-FCVI.

Florida. Florida Legislature. (1994). *Government Performance and Accountability Act, Chapter 94-249*. Tallahassee: Author.

McCandless, H.E. (1997, Autumn). Equity statements: A new approach to public accountability. *Canadian Parliamentary Review, Autumn 1997.*

Treasury Board of Canada, Secretariat. "Results for Canadians: A Management Framework for the Government of Canada." http://www.tbs-sct.gc.ca/res_can/rc_e.html (12 April 2000)

United States of America. (1993). Government Performance and Results Act of 1993. *Public Law 103-62[S.20]; August 3, 1993.* Washington.D.C.: Senate and House of Representatives of the United States of America in Congress.

United States General Accounting Office. (1998, April). *Internal control: Essential for safeguarding assets, compliance with laws and regulation, and reliable financial reporting.* Washington: Author. http://www.gao.gov/AindexFY98/abstracts/ai98125t.html. (21 March 2000)

Western Australia. Public Sector Management Office. Ministry of The Premier and Cabinet Government of Western Australia. (1997). *Preparing performance indicators: A practical guide.* Perth: Government of Australia.

Wilkins, P., Phd. (1998 November). Reporting performance: Lesson on how and why from North America. *Paper to the practitioner and academic symposium IPAA Nation Conference, Hobart.* Perth, Western Australia: Office of the Auditor General.

Crown Investments Corporation of Saskatchewan

2

Introduction **29**

Our audit conclusions and findings **29**

Public accountability information 30

Performance reporting by CIC and its subsidiaries 30

List of persons who received public money 32

CIC's investment management system follow-up 33

Subsidiaries, corporations and pension plans under CIC's control at December 31, 1999 ..... **35**

This page left blank intentionally.

Introduction

Management of Crown Investments Corporation of Saskatchewan (CIC) advises CIC's Board of Directors (Board) about subsidiaries, corporations and pension plans under CIC's control. In turn, CIC's Board provides advice about them to Executive Council (Cabinet). A list of these entities is provided at the end of this Chapter. CIC also holds investments in several companies.

CIC's *1999 Annual Report* contains three sets of financial statements. The first set shows CIC's financial results consolidated with those of its subsidiaries. The second set shows the financial results of activities of CIC, the legal entity. The third set shows the financial results of activities that CIC manages through its subsidiary CIC Industrial Interests Inc. (CIC III).

The first set of financial statements shows CIC had revenue of $2.8 billion in 1999, net income of $216 million, and held assets of $7.3 billion at December 31, 1999.

Our audit conclusions and findings

In our opinion, for the year ended December 31, 1999:

- **CIC's financial statements are reliable;**
- **CIC had adequate rules and procedures to safeguard and control its assets; and**
- **CIC complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

The remainder of this Chapter describes matters related to the public accountability of CIC and its agencies and a follow-up to our recommendations regarding CIC's systems for managing its investments in commercial enterprises.

Public accountability information

In the following paragraphs, we discuss the importance of providing performance information and lists of persons who have received public money.

Performance reporting by CIC and its subsidiaries

Most of CIC's subsidiary Crown corporations do not yet include full comparisons of their plans to actual performance. However, CIC is making good progress in performance reporting. We look forward to seeing the results of this progress in the annual reports of CIC and its subsidiaries.

To assess the performance of any Crown agency, Members of the Legislative Assembly (MLAs) and the public need adequate summary information about the agency's plans and about the achievement of those plans. All Crown agencies should provide their vision, long-range goals, specific objectives, key performance targets, and main strategies for achieving those targets. They should also report on the extent to which they achieved their plans and targets. In addition, they should provide information about their governance practices and assessments of effectiveness of control related to the agency's significant objectives.

Over the past several years, CIC has significantly improved its annual reports. For example, CIC's annual report includes its vision, mission, objectives, and information on governance. CIC's annual report sets out its corporate objectives for the coming year as well as accomplishments related to objectives set out in the prior year's annual report. Also, in its annual report, CIC provides a clear link between its corporate objectives and its mission.

CIC is continuing to pursue improvements to its performance reporting. In 1997, CIC began to implement the Balanced Scorecard performance measurement system. CIC's objective is to "balance the Crowns' business needs with meaningful accountability to the people of Saskatchewan." The Balanced Scorecard is used to evaluate financial performance as well as achievements of targets in the areas of innovation and growth, customer satisfaction, and public policy. We support CIC's decision to use the Balanced Scorecard as a framework in which Crown corporations will manage and compare their plans to their actual results.

In 1999, CIC took further steps in its process to improve performance reporting by its subsidiary Crown corporations. It prepared a Strategic Plan for the Crown Sector for use in year 2000 planning. The strategic plan contains broad objectives providing common direction for all Crowns to follow. One of the elements of this plan is that CIC will articulate meaningful public policy objectives to its subsidiary Crown corporations. To fulfil the Government's public policy expectations, individual Crowns are responsible for implementing the public policies and measuring the results.

Under the process CIC is following, CIC's Board approves the financial, public policy, innovation and growth, and customer satisfaction targets for Crown corporations. The actual actions, measures, and targets are developed and agreed upon jointly by CIC and individual Crowns during each planning cycle. These key elements of each Crown's Balanced Scorecard are summarized in an annual management report called a Crown Sector Performance Management Document. In some cases, the elements are well defined and include measurable targets—many over the next five-year period. In others, the elements are still being developed.

In our opinion, the annual reports of CIC and its subsidiaries should clearly set out their business policy objectives as well as their key public policy objectives for programs such as the Government's Crown Construction Tendering Agreement (CCTA). Annual reports should set out clear measurable objectives for public policies and describe planned and actual performance in meeting the objectives. These objectives would include the costs of the policy. Good performance reporting by government agencies allows the public to assess public policies and have an informed debate about their objectives, achievements, and costs.

Some Crowns have identified their public policy objectives and the costs of achieving them. For example, Saskatchewan Power Corporation and SaskEnergy Incorporated have estimated the costs they incurred as a result of the CCTA. However, until all Crowns publicly report the key elements of their Balanced Scorecards in their annual reports, MLAs and the public will not have the essential accountability information they need to properly assess the performance of Crown corporations.

In January 2000, CIC's Board approved a performance reporting and disclosure policy for CIC and its subsidiaries. This policy provides a timetable for the public reporting of the key elements of the Balanced Scorecard. This timetable requires progressive improvement of

performance reporting in the annual reports of CIC and its subsidiary Crown corporations. It sets minimum disclosure requirements for the 2000 annual reports and additional disclosure required no later than the 2002 annual reports. We commend CIC and the Saskatchewan Transportation Company for presenting a summary Balanced Scorecard in their 1999 annual reports.

We support these initiatives and welcome the additional disclosure to MLAs and the public through the annual reports of CIC and its subsidiary Crown corporations. Disclosing a full comparison of plans to actual performance using the framework provided by the Balanced Scorecard system will help MLAs and the public to understand and assess the performance of Crown corporations.

During 1999, there was much public discussion about the costs of the CCTA. If Crown corporations had reported now the nature and extent of information that is planned to be reported for 2002, we think there would have been better public accountability.

1. **We recommend CIC should continue to improve the public accountability of its Crown corporations by ensuring they comply with CIC's policy for publicly reporting key elements of the Balanced Scorecard in their annual reports.**

List of persons who received public money

CIC and its subsidiaries did not give the Legislative Assembly a list of persons who received public money in 1999.

The Standing Committee on Crown Corporations (Crown Corporations Committee) requests and receives some information about spending by CIC and its subsidiaries, such as expenses for out-of-province travel and payments to board members, senior management and consultants.

In our 1999 Spring Report, we recommend that CIC and its subsidiaries should:

- publish a list of persons who received money from them and the amounts the persons received following the Legislative Assembly's (Assembly's) current general disclosure standard; or

- discuss alternative public disclosure requirements that will achieve the MLAs' objectives for requiring this information with the Standing Committee on Public Accounts (PAC) or, if the Assembly so directs, with the Crown Corporations Committee.

In its Third Report (tabled in April 1999), PAC recommended that the Assembly refer this issue to the Crown Corporations Committee for review and consideration, as it relates to CIC and its subsidiaries. In its response to PAC's Third Report, the Government agrees this issue should be referred to the Crown Corporations Committee. The Assembly concurred with PAC's Third Report, but has not yet ordered referral of this matter to the Crown Corporations Committee.

We discuss this matter more fully in Chapter 15 of our 1999 Fall Report – Volume 2.

2. We continue to recommend CIC and its subsidiaries should:

- **publish a list of persons who received money from them and the amounts the persons received following the Standing Committee on Public Account's (PAC's) current minimum disclosure amounts; or**

- **seek direction from PAC or, if the Assembly so directs, from the Crown Corporations Committee.**

CIC's investment management system follow-up

In 1995, we audited CIC's system for managing investments in large commercial enterprises. In our 1996 Fall Report, we conclude that, overall, CIC's systems and practices to manage investments are adequate, except for four areas where we make recommendations. We recommended CIC should:

- prepare a concise summary of its specific objectives for individual investments;

- prepare written summaries describing the planned program of procedures it uses for managing individual investments;

- follow its existing policy when negotiating future investment agreements, i.e., to take an ownership interest when the terms of an investment are beyond normal commercial terms; and

- strengthen the way it monitors its investment in HARO Financial Corporation (HARO), and HARO's subsidiary, Crown Life Insurance Company (Crown Life).

Summary of objectives for individual investments

CIC has prepared concise summaries of the specific objectives it has for each of its investments. This information is included in the regular update reports that are provided to senior management and the Board.

Written program of procedures for managing investments

CIC has not prepared written summaries of the program of procedures it uses for managing individual investments. Instead, CIC now requires that more than one employee is thoroughly knowledgeable about the details and status of each investment and the monitoring processes being used. This adequately addresses our concern.

Follow the established policy when negotiating new agreements

CIC now follows its established policy when negotiating new investment agreements and takes an ownership interest that is appropriate to the nature and circumstances of the investment.

Strengthen monitoring of its investment in HARO and Crown Life

CIC strengthened the way it monitors the investment in HARO and Crown Life. CIC now receives written quarterly reports from HARO. In addition, CIC has regular quarterly meetings with the management of HARO and Crown Life.

Subsidiaries, corporations and pension plans under CIC's control at December 31, 1999

CIC Industrial Interests Inc.
- CIC Pulp Ltd.
- Genex Swine Group Inc.
- Western Canadian Beef Packers Inc.

Capital Pension Plan

Saskatchewan Development Fund Corporation
Saskatchewan Development Fund

SaskEnergy Incorporated
- TransGas Limited
- Bayhurst Gas Limited
- Many Islands Pipe Lines (Canada) Limited
- SaskEnergy International Incorporated
  - SaskEnergy Chilean Holdings I Ltd.
  - SaskEnergy Chilean Holdings II Ltd.
    - SaskEnergy Chilean Holdings Limitada

Saskatchewan Forest Products Corporation

Saskatchewan Government Growth Fund Management Corporation
Saskatchewan Government Growth Fund Ltd.
Saskatchewan Government Growth Fund II Ltd.
Saskatchewan Government Growth Fund III Ltd.
Saskatchewan Government Growth Fund IV Ltd.
Saskatchewan Government Growth Fund V (1997) Ltd.
Saskatchewan Government Growth Fund VI Ltd.
Saskatchewan Government Growth Fund VII Ltd.
Saskatchewan Government Growth Fund VIII Ltd.
617275 Saskatchewan Ltd.

Saskatchewan Government Insurance
- SGI Canada Insurance Services Ltd.

Saskatchewan Government Insurance Superannuation Plan

Saskatchewan Opportunities Corporation

Saskatchewan Power Corporation
- SaskPower International Inc.
- Power Greenhouses Inc.

Northern Enterprise Fund Inc.
Power Corporation Superannuation Plan

Subsidiaries, corporations and pension plans under CIC's control at December 31, 1999 (continued)

Saskatchewan Telecommunications Holding Corporation
- Saskatchewan Telecommunications
- Saskatchewan Telecommunications International Inc.
  - SaskTel Telecommunications Consulting Inc.
  - Battleford International Inc.
- SaskTel Holding (U.K.) Inc.
- SaskTel Holding (New Zealand) Inc.
- SaskTel New Media Fund Inc.
- SecurTek Monitoring Solutions Inc.
  - SecurTek Partnership No. 1
  - SecurTek Partnership No. 2
- 620064 Saskatchewan Ltd.
  - SaskTel Data Exchange Inc.
    - Information Queries and Analysis Partnership
- Avonlea Holding, Inc.
- 3339807 Canada Ltd.
- 3364381 Canada Ltd.
  - DirectWest Publishing Partnership
- 604408 Saskatchewan Ltd.
  - Hollywood at Home Inc.
  - Hospitality Network of Canada
  - 3231518 Canada Ltd. (Click-a-bid)

Saskatchewan Telecommunications Pension Plan

Saskatchewan Transportation Company

Saskatchewan Water Corporation

Rate regulation in the public sector

3

Introduction **39**

Purpose of rate regulation **39**

Types of regulation **40**

Return on rate base regulation 40

Price cap regulation 40

Incentive (performance) based regulation 41

Protecting consumers in the private sector **41**

Protecting consumers in the public sector **42**

Good accountability system needed 42

Role of regulator in the public sector needs to be clear 44

Regulator as an advisor 44

Regulator as a decision-maker 46

Concluding comments **47**

This page left blank intentionally.

Introduction

For several years, there has been considerable public concern about the rates charged by Saskatchewan's Crown corporation monopolies. Legislators, the public and various interest groups are concerned as to whether the rates charged by these Crown corporations are fair and reasonable.

To address this public concern, the Government established the Saskatchewan Interim Rate Review Panel (SIRRP) in November 1999.The panel's mandate is to provide advice to the Minister of Crown Investments Corporation of Saskatchewan on the fairness and reasonableness of proposed Crown corporation monopoly rate changes. Also, SIRRP is to provide advice regarding options to consider for the development of a permanent rate review process.

The purpose of this Chapter is to provide legislators and the public with background information about rate regulation in the public sector and to set out our advice on the need to establish a good accountability system for setting rates charged by Saskatchewan's Crown corporation monopolies.

We think this Chapter will be useful to Members of the Legislative Assembly as they consider the various options for a more permanent rate review process.

Purpose of rate regulation

In a competitive marketplace, there is a balance of power between the supplier and the consumer. This balance of power will over time ensure suppliers earn fair returns and consumers pay fair prices. When a supplier seeks to earn more than a fair return, consumers will purchase from lower-priced competitors. When prices fall below the level necessary for suppliers to earn a fair return, suppliers will leave the marketplace until prices rise again to provide them a fair level of return. In this competitive environment, rate regulation is not needed.

Consumers want protection when competition in the marketplace is limited and corporations have a monopoly or significant market power. In these situations, corporations can price their products and services at higher levels than would be possible in a competitive market environment.

This lack of competition can result in unfair prices for consumers of these products and services.

Governments act to protect consumers by regulating the rates charged by corporations with monopoly or significant market power. Regulators try to redress the imbalance of power between these corporations and consumers of their products and services.

Types of regulation

There are several models that regulators use to set rates. These include return on rate base regulation, price cap regulation and incentive (performance) based regulation.

Return on rate base regulation

For return on rate base regulation, the regulator determines what is a fair rate of return for a corporation or regulated product or service. The regulator then allows the corporation to recover its estimated costs and a fair rate of return.

The advantages of this type of regulation are that the corporation earns a fair rate of return and consumers are protected. However, this type of regulation provides little incentive to a corporation to seek cost efficiencies and can result in higher prices. Also, the rates are usually set for short periods such as one to two years before the next review and the process for analyzing a corporation's costs can be very detailed and expensive.

Price cap regulation

For price cap regulation, the regulator allows a corporation to set rates up to a certain level according to a specific formula. The formula sets a ceiling or price cap for rates that can be charged by a corporation over a period of several years and will incorporate factors such as inflation and targeted productivity improvements.

Rate reviews are less frequent than with the return on rate base method and may occur every three to six years. If a corporation achieves better productivity improvements than those included in the pricing formula, it will improve its rate of return.

The advantage of price cap regulation is that it provides an incentive for efficiency and may lead to lower prices over the longer term. However, the process involves both the development of a pricing formula and also a detailed review of costs.

Incentive (performance) based regulation

For incentive (performance) based regulation, the regulator sets an acceptable level of performance. The corporation is allowed to keep all or some of the cost savings for performing above that level and bears any extra costs of performing below that level. Incentive or performance based regulation will allow the corporation to earn higher returns but it will also have a risk of lower returns.

The advantage of incentive (performance) based regulation is that it provides incentives for efficiency and may lead to lower prices over the longer term. However, the process involves the establishment of acceptable levels of performance on which incentives will be based.

In practice, rate regulation may follow return on rate base regulation, price cap regulation or incentive (performance) based regulation, or increasingly, a combination of these types of regulation.

Protecting consumers in the private sector

In the private sector of the economy, government appointed regulators act to protect consumers by regulating rates charged by private sector corporations with monopoly or significant market power.

In the private sector, government-appointed regulators are generally decision-making bodies rather than advisory and they are independent of the regulated corporations. To carry out their duties, they are given the legislative power to make rate decisions that limit the rates that can be charged. Such legislation also provides the appointed regulator with the power to obtain resources to carry out their regulatory duties. This can be achieved by giving the regulator the legislative power to charge fees on regulated corporations.

The role of the regulator is to ensure that rates charged by private sector corporations with monopoly or significant market power are fair and reasonable for both the regulated corporation and the consumer. Rate

decisions made by the regulator are binding on the regulated corporation. The regulator is accountable to the Government and the Legislative Assembly for its performance. An example is the Canadian Radio-television and Telecommunications Commission (CRTC).

Protecting consumers in the public sector

In the public sector of the economy, rate regulation and the role of a regulator are more complex. In the public sector of the economy corporations with monopoly or significant market power are Crown corporations or Crown agencies.

Crown corporations play an additional role in the economy. Generally, governments use Crown corporations to carry out public policies. This public policy role distinguishes Crown corporations from private sector corporations. Also, Crown corporations are accountable to a Minister of the Government and through that Minister they are accountable to the Legislative Assembly.

When there is no regulator, the Government is accountable for the rates charged by Crown corporations. Consumers have some protection from unfair prices because the Government and the Legislative Assembly are elected by the public and are ultimately accountable to the public.

Using a regulator to protect consumers from unfair prices in the public sector will impact the accountability system. Regulators are not elected, but are appointed by the Government. Because the Government appoints regulators and the Boards of Directors of Crown corporations, it is more difficult for the regulator to be independent of the Government and the regulated Crown corporations. In the public sector, a good accountability system is essential and the role of a regulator needs to be clearly defined.

Good accountability system needed

A good accountability system is needed regardless of whether the Government sets rates itself or creates a regulator to oversee rate changes by Crown corporation monopolies.

A good accountability system includes:

- an agreed upon plan that is clear as to authority, responsibilities, performance expectations and resources required;

- a reliable report on performance; and
- a reasonable review of performance.

A good accountability system will build public confidence in the fairness and reasonableness of rates charged by Saskatchewan Crown corporation monopolies.

There may be several reasons for public concern about the fairness and reasonableness of rates charged by Crown corporation monopolies. We think one of the reasons for this concern may be the need to improve the accountability system.

For several years, we have been concerned about the information the Legislative Assembly receives to understand and debate Crown corporation monopoly rate changes. Cabinet sets the rates charged by Crown corporation monopolies. We think the Legislative Assembly does not receive adequate information on rate changes to have an informed debate in the Assembly.

The lack of information provided to the Legislative Assembly and the lack of informed debate may be a significant reason behind public concern about rates charged by Crown corporation monopolies. In addition, there has been a lack of independent assurance provided on the reliability or relevance of information supporting rate changes.

Since the creation of SIRRP, more information has been provided to the public on Crown corporation rate plans and on the reasons why rate changes are requested. This additional information is necessary to build public confidence. However, a good accountability system is also necessary.

A good accountability system for setting Crown corporation monopoly rates should address the following:

- the responsibilities and authority of the Government and the Crown corporation monopoly;
- the accountability of the Government or the regulator to the Legislative Assembly;
- the information needed for the Legislative Assembly to hold the Government or the regulator accountable; and
- a review of performance of the Government or the regulator.

An effective accountability relationship between the Legislative Assembly and the Government requires clear delegation of responsibility and authority to the Government or the regulator. It should also clearly set out performance expectations and provide resources needed.

The Legislative Assembly needs information on the plans of the Government or its regulator and the resources required to achieve planned results. Also, the Legislative Assembly needs a reliable report on performance from the Government or its regulator. This information allows the Legislative Assembly to assess the Government's or its regulator's expected results and costs in relation to the Legislative Assembly's expectations.

Finally, the Assembly must perform a reasonable review of the Government's or the regulator's performance.

Under existing legislation, the Legislative Assembly has no role with regard to Crown corporation monopoly rate changes. We think the role of the Legislative Assembly regarding these rates needs to be addressed in legislation. The law should clearly set out the role of the Legislative Assembly and the extent to which the authority for rate changes should be delegated to the Government or its regulator.

Role of regulator in the public sector needs to be clear

As noted earlier in this Chapter, the role of a regulator in the public sector is complex. Therefore, it is essential that the role and responsibilities of a regulator in the public sector be clearly defined. Clarity is needed to avoid potential problems.

Rate regulation in the public sector can take several different forms. The major issues that need to be clear involve the accountability relationship of a regulator and whether the regulator is an advisor or a decision-maker.

Regulator as an advisor

If a regulator's role is to provide advice, the first question is to whom should the advice be given.

Currently, the SIRRP provides advice to the Minister of Crown Investments Corporation of Saskatchewan on proposed rate changes for Crown

corporation monopolies. Cabinet decides the rates to be charged. Cabinet considers the advice it receives from SIRRP and may adopt or amend the recommendations received. Therefore, Cabinet remains accountable for the rate decisions it makes for Crown corporation monopolies.

For regulators that provide advice, other accountability relationships are also possible. For example, a regulator's role might be to provide advice directly to the Legislative Assembly, who would then decide the rates to be charged. In this relationship, the regulator could provide advice to a committee of the Legislative Assembly. This committee would then make a recommendation to the Legislative Assembly and the Assembly would make the final rate decision.

Further matters that need to be clearly defined include what type of advice the regulator should provide, and what are the regulator's responsibilities and duties.

Currently, SIRRP is responsible for providing advice on whether proposed rate changes are fair and reasonable and making recommendations on whether the proposed rate changes should be implemented, adjusted or not implemented. SIRRP reviews rate changes referred to it by the Minister of Crown Investments Corporation of Saskatchewan and is required to follow specific terms of reference as provided by the Minister.

In conducting its work, SIRRP obtains rate submissions from certain Crown corporations. SIRRP makes these rate submissions public and provides the opportunity for the public and other interested parties to review and comment on the proposed rate changes. SIRRP holds public meetings and receives comments and written presentations from interested parties. Finally, SIRRP also engages consultants to assist it in its role of providing advice.

In the public sector, regulators can provide advice on many issues related to rates charged by Crown corporations and Crown agencies. For example, a regulator can provide advice on:

- average rates of return for a particular industry or an appropriate rate of return for a specific corporation;
- levels of cross subsidies;
- the method of rate regulation to be followed;
- the cost of rate regulation;
- the extent to which a corporation buys Saskatchewan goods;

- the cost of economic development and public policies; and
- whether proposed rates are fair and reasonable to the Corporation and the consumer.

In our opinion, regardless of whether there is a regulator, it is important that plans and actual performance information regarding rate changes are made public. This enables informed debate on the reasonableness of proposed rate changes and helps to build public confidence through open and transparent accountability.

Regulator as a decision-maker

Occasionally, regulators in the public sector may have a decision-making role rather than an advisory role. When a regulator is a decision-maker for the rates charged by Crown corporation monopolies, it is critical that there is a clearly defined accountability system.

Care needs to be taken when decisions might have the effect of moving accountability from elected representatives (MLAs) to a government appointed representative. Can MLAs be accountable for public corporations if they do not have the power to set the rates charged by those corporations? Can public corporations carry out public policy and economic development roles if the rates they can charge are determined by a regulator?

If a regulator makes the rate decision, there is the potential for the accountability relationship to be blurred and confused. For example, when the regulator is a decision-maker, who does the Legislative Assembly hold accountable for the operations and results of a Crown corporation? Is it the Government or the regulator? The public will continue to hold the Legislative Assembly accountable for the performance of Crown corporations.

When a regulator is to be a decision-maker, the law should clearly define the authority, responsibilities, performance expectations and resources required. Also, the law should clearly set out the accountability of the regulator to the Legislative Assembly. This should include the information required by the Legislative Assembly and should provide for a reasonable review of the regulator's performance.

Concluding comments

We think this Chapter will be useful to Members of the Legislative Assembly as they consider options for the development of a more permanent rate review process.

Rate regulation in the public sector is complex. For a rate review process to be successful, it is essential that there is a good accountability system. A good accountability system includes:

- an agreed upon plan that is clear as to authority, responsibilities, performance expectations and resources required;
- reliable report on performance; and
- a reasonable review of performance.

The accountability system should clearly define in legislation the role of the Legislative Assembly regarding rate changes of Crown corporation monopolies. Accordingly, the law should set out the role of the Legislative Assembly and the extent to which the authority for the rates charged should be delegated to the Government or its regulator.

The accountability system should address the following with regard to the rate review process for Crown corporation monopolies:

- the accountability of the Government or the regulator to the Legislative Assembly;
- the information needed by the Legislative Assembly to hold the Government or the regulator accountable; and
- a review of performance of the Government or the regulator.

Also, the role and responsibilities of a regulator for Crown corporation monopoly rate changes should be clearly defined. Clarity will help to avoid potential problems in the accountability relationship.

Finally, regardless of whether there is a regulator, it is important that plans and actual performance information regarding rate changes are made public. This enables informed debate on the reasonableness of proposed changes and helps to build public confidence through open and transparent accountability.

This page left blank intentionally.

Post-Secondary Education and Skills Training

4

Executive Summary **50**

Introduction **51**

Understanding the Department 51

Role of the Department and its goals 51

Risks the Department faces 52

Related special purpose funds and agencies 52

Department spending 53

Our audit conclusions and findings **54**

Detailed audit findings relating primarily to the Department and its Fund 56

Program financial management needs improvement 56

Program delivery limits options 59

Status of previous recommendations 60

Clarifying accountability relationships 61

Developing a sector-wide plan 61

Reporting on performance - Annual Report 62

Status of previous Student Aid Fund recommendations 63

Verification of critical information continues to be needed 63

Documented policies and procedures needed 64

Periodic financial reports need improvement 65

Detailed audit findings relating to the Regional Colleges 65

Safeguarding and controlling public money 65

Written rules and procedures required 65

Some progress noted on improving performance measurement and reporting 67

Financial reporting needs improving 67

Contingency plans still needed 68

Non-compliance with The Regional Colleges Act 69

Other matter 70

Executive Summary

The Department has overall responsibility for the Saskatchewan post-secondary education and skills training system. In 1999, the Department spent $439.1 million in the system. The system includes the Department and many educational institutions, public and private sector training agencies and employer groups. The relationship between the participants is complex. This increases the need to clarify accountability relationships and the need for a sector-wide plan.

The Department has yet not formed a plan for the entire post-secondary sector and has not explained its complex accountability relationships to legislators and the public. Without a clear understanding of these relationships and a sector-wide plan, the Department cannot determine if all parties are working towards a common purpose and if monies are spent effectively for the purpose intended. The Department is making progress to clarify accountability relationships and coordinate planning efforts in the system. We encourage the Department to continue its efforts.

In 1998-99, the Department assumed an expanded role in the design and delivery of employment programs and services for employment insurance clients. It opened 20 Canada-Saskatchewan career and employment offices and assumed staff previously employed by the Federal Government. The Federal Government has agreed to reimburse the Department for certain costs. In 1998-99, the Department recovered a total of $10.2 million of the $14.3 million costs incurred on labour market development activities.

The Department had some problems in the first year of its expanded role. To overcome these problems, we recommend the Department should ensure its information systems identify and track all costs related to labour market activities and provide regular reporting. We also recommend the Department work with the Federal Government to gain a common understanding on eligible costs before the Department prepares its budget and incurs related costs.

The Department has made progress in improving its verification of critical information on students' loans, and on documenting accounting policies and procedures for the Student Aid Fund. We encourage the Department to continue its progress and to improve its periodic financial reports for the Fund.

Some regional colleges need to improve their rules and procedures used to safeguard and control public money. One College needs to ensure its board members are properly appointed.

We continue to encourage the Department to work towards compliance with our recommendations in its efforts to better safeguard and control public money.

Introduction

Understanding the Department

It is important legislators and the public understand the role of the Department of Post-Secondary Education and Skills Training, the risks it faces, and the key control systems needed to manage those risks. This helps them to assess better the Department's performance.

Role of the Department and its goals

In 1996, the Lieutenant Governor in Council (Cabinet) established the Department under *The Government Organization Act*. The Department has overall responsibility for the post-secondary education and skills training system. The post-secondary system includes universities, regional colleges, SIAST and other privately- and federally-funded institutions. The system also includes programs like student loans and bursaries.

Specific responsibilities of the Department include developing and implementing policies for post-secondary education and skills training, overseeing operations of the institutions delivering post-secondary education, working with provincially-funded institutions to acquire sufficient resources to deliver its public policy objectives, and administering and regulating training and apprenticeship programs.

In February 1998, the Department entered into the Labour Market Development Agreement with the Federal Government to assume an expanded role in the design and delivery of employment programs and services in Saskatchewan for employment insurance clients. It also entered into two other related federal agreements to allow for the transition of this work to the Department. Under these agreements, the Federal Government agreed to pay for certain costs up to agreed upon maximum amounts.

We encourage Members of the Legislative Assembly and the public to obtain more detailed information about the Department. Publications are available from the Department or from the internet at http://www.sasked.gov.sk.ca/P/departmental/index.html.

Risks the Department faces

The environment in which the Department and post-secondary institutions operate is changing. These changes present the Department with risks and pressures. To reduce the risks and pressures faced, the Department needs to:

- coordinate the efforts of the key post-secondary institutions to deliver post-secondary education and skills training effectively and efficiently;
- ensure post-secondary education and skills training responds to the needs of the public and of employers; and
- ensure reasonable access to quality education and training opportunities.

For further discussion of the Department's role, goals and the above key risks and pressures, see Chapter 4 of our 1998 Fall Report – Volume 2.

Related special purpose funds and agencies

The Department is responsible for the following special purpose funds and agencies:

	Year end
Carlton Trail Regional College	June 30
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
New Careers Corporation	March 31
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Training Completions Fund	March 31
Saskatchewan Indian Regional College	June 30
Saskatchewan Institute of Applied Science and Technology (SIAST)	June 30
Saskatchewan Communications Network Corporation	March 31
Southeast Regional College	June 30
Student Aid Fund	March 31

Also, the Department is responsible for the University of Saskatchewan and the University of Regina. The universities have an April 30 year end.

Department spending

In 1999, the Department received $439.1 million (1998 - $386.1 million) from the General Revenue Fund and spent this money on its programs. Also, the Department raised $21.8 million (1998 - $12.8 million) of revenue. Of these revenues, over 90% is from the Federal Government. The *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure* (1998-99 Public Accounts – Volume 2) reports information about the Department's revenue and expenses.

The following is a list of major programs and spending as reported in 1998-99 Public Accounts – Volume 2.

	Original Estimate	Actual
	(in millions of dollars)	
Administration & shared services	$ 2.4	$ 3.1
Accommodation & central services	1.8	1.9
Student support & employment programs	54.4	65.3
Post-secondary education	290.7	297.8
Training programs	42.0	43.6
Employment programs & services	35.5	20.1
Saskatchewan Communications Network	7.3	7.3
	$ 434.1	$ 439.1

Each regional college and Corporation table, in the Legislative Assembly, an annual report each year that contains its audited financial statements. Each Fund tables separate financial statements each year.

The following summarizes the revenues and assets held by the special purpose funds and agencies. The revenues include funding provided by the Department.

(Actual in millions of dollars)

Fund or agency	1999 Total revenues	1998 Total revenues	1999 Total assets held	1998 Total assets held
New Careers Corporation	$ 4.7	$ 12.5	$ 0.0	$ 3.8
Regional Colleges (combined)	49.5	47.2	25.1	22.0
Saskatchewan Communications Network Corporation	8.2	7.9	3.8	3.3
SIAST	120.1	114.0	40.4	35.9
Student Aid Fund	37.3	40.8	65.9	83.4
Training Completion Fund	0.04	0.03	0.01	0.07

Source: audited financial statements

The University of Regina for its year ended April 30, 1999 held assets of $125 million and raised revenues of $103 million of which about $53 million came from the Department. The University of Saskatchewan for its year ended April 30, 1999 held assets of $556 million and raised revenues of $388 million of which about $186 million come from primarily the Department and the Department of Health.

Our audit conclusions and findings

In our 1999 Fall Report – Volume 2, we report the results of our 1999 audits of New Careers Corporation, SIAST and Saskatchewan Communications Network Corporation. We had no matters to report to the Assembly.

In this Chapter, we report the audit conclusions and findings for the 1999 audits of the Department, of two of its funds – Training Completions Fund and Student Aid Fund and of three of its regional colleges – Carlton Trail, North West and Parkland.

Our Office worked with the appointed auditors of the following colleges using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/).

Regional college	Appointed auditor
Carlton Trail Regional College	E.J.C. Dudley & Co.
Cumberland Regional College	Neumann & Neumann
Cypress Hills College	Stark & Marsh
North West Regional College	Downie Johnson Svenkeson
Northlands College	Woodhouse, Tucker & Partners
Parkland Regional College	Skilnick Robertson Besler Miller & Co.
Prairie West Regional College	Gilchrist & Co.
Saskatchewan Indian Regional College	KPMG
Southeast Regional College	Hillstead, Melanson

In 1998-99, we reviewed our involvement in the audits of the colleges. Our review showed:

- the colleges generally operate in a common environment and face similar issues.
- we have had few disagreements with the government-appointed auditors in the audits of the colleges.
- the financial accounting control systems at each college have improved over time.
- the Department helps the colleges strengthen their financial planning and reporting systems. This includes active involvement with the colleges in the implementation of the Saskatchewan Training Strategy, including the development of an accountability framework.

Based on these factors, we changed how we are involved in the audits of the colleges. We continue to require all auditors to provide us with their reports. We review these reports to determine if new significant matters are identified for that college. If so, we work with the appointed auditor on these matters.

In addition, we work more directly with a few colleges and their auditors on a cyclical basis. In 1998-99, we worked more directly with three colleges. They were Carlton Trail, Parkland and North West.

In 1999, the auditors of the other colleges did not report any new matters for the College they audited.

In our opinion and in the opinion of the appointed auditors' for colleges,

- **The 1999 financial statements of the Training Completions Fund, Student Aid Fund, Carlton Trail, Parkland and North West are reliable.**

- **The Department and the above three colleges had adequate controls to safeguard and control public money and comply with authorities governing their activities and those of the above Funds except for matters described elsewhere in this Chapter.**

- **The Department and the above three colleges complied with the authorities governing their activities and those of the above Funds except for matters described in this Chapter.**

- **The Department's 1998-99 annual report showed little improvement from prior years in becoming a better report on the Department's performance.**

Detailed audit findings relating primarily to the Department and its Fund

Program financial management needs improvement

The Department needs to improve how it budgets and monitors its activities related to the Labour Market Development Agreement (LMDA).

In 1998-99, the Department operated in a start-up mode for various labour market development activities. It opened 20 Canada-Saskatchewan career and employment offices across Saskatchewan and assumed 97 staff who were previously federal employees. The Federal Government advanced $10.2 million to the Department for labour market development activities.

To retain these federal funds, the Department was required to provide the Federal Government with certain information and an audited statement of eligible costs incurred under the LMDA (claim). To gather this information and to prepare the required statement, the Department needed to track its costs and activities differently.

The Department had difficulty preparing the information required by the Federal Government, completing a number of procedures in advance of our audit of its claim, and submitting the claim to the Federal Government within the required time (i.e., by June 30th).

The Department had the most problems in:

- adjusting its information systems in a timely manner to ensure it had the necessary information to accurately calculate, predict and monitor its revenue and expenses;

- reaching agreement within a reasonable time frame with the Federal Government on expenses eligible for reimbursement under the agreements; and

- preparing its 1998-99 budget to accurately reflect the additional revenues and expenses as a result of labour market development activities.

Adjustments to information systems: As mentioned, the Federal Government under the LMDA agreed to reimburse eligible costs to agreed upon maximum amounts. As a result in 1998-99, the Department needed ways to identify amounts it expected to pay and amounts it paid to all employment insurance clients.

It also needed ways to readily identify and track costs associated with other labour market development activities such as costs associated with opening and running the client service offices and costs associated with making necessary information system changes. It needed this information in a timely manner to accurately calculate, predict and monitor its revenue (i.e., amounts expected from the Federal Government) and expenses.

From January to March 1999, the Department paid $5.8 million to employment insurance clients. At that time, the Department did not have a way to identify the total number of employment insurance clients serviced by its programs and to identify the amounts paid to these clients. Rather for certain employment insurance clients, the Department relies on the Federal Government to determine if they are employment insurance clients.

For 1998-99, the Department did not obtain the needed information from the Federal Government until May 1999. As a result, the Department did

not have complete information about employment insurance clients when it estimated its revenue from the Federal Government. At March 31, 1999, the Department understated its estimate of revenue of $12.2 million from the Federal Government for the LMDA by $2 million.

Also during 1998-99, the Department spent $8.5 million on other costs related to labour market activities. The Department used special coding in its records to identify and track the costs of these activities. Reports that summarized these costs were available later in 1998-99.

Expense eligibility: For certain costs, e.g., costs to set up client service offices, the LMDA was not clear as to if the costs were eligible for reimbursement and if so, to what extent. A common understanding on eligible costs between the Department and the Federal Government is important. The Department needs to know what extent its planned costs for labour market activities will be paid by the Federal Government and to what extent the Department will pay. The Department needs this information to decide on the extent of activities to undertake, and then to plan and monitor these activities.

The Department worked with the Federal Government throughout 1998-99 to identify eligible costs. These costs include payments to employment insurance clients, costs to set up systems to track program costs, and costs to administer the agreement. However, the Department and the Federal Government had difficulty in reaching agreement on the eligibility for certain costs. For some of these costs like connectivity, (i.e., costs to connect informatin technology systems so they can communicate with each other) agreement on eligibility was not reached until late in 1998-99; well after the Department incurred most of the costs.

Budget preparation: The Department's 1998-99 approved budget did not accurately reflect the revenues and expenses associated with its labour market development activities. The Department prepared this budget in late 1997. At that time, the Department had not reached agreement with the Federal Government on which programs and costs were eligible for reimbursement under the LMDA.

In its 1998-99 budget, the Department expected to spend $22 million on these activities (see budget line item called "Labour Market Development Programs"). When it prepared its budget, it expected to start all labour market development activities by September 1998. It also expected to

recover all of its costs for labour market development activities from the Federal Government.

With the Federal Government's agreement, the Department did not start certain labour market activities until January 1999. Also, it did not recover all costs incurred since some were not eligible under the agreement or not fully recoverable. In 1998-99, the Department recovered a total of $10.2 million of the $14.3 million costs incurred on labour market development activities.

Also as previously mentioned, the Department and the Federal Government did not decide on which programs (e.g., JobStart Future Skills and Provincial Training Allowances) were eligible under the LMDA until 1998-99. Without this information, the Department could not split its $22 million budget between key programs and activities. This made monitoring actual costs difficult.

1. **The Department should ensure its systems identify and track all costs related to labour market activities and provide regular reporting throughout the year.**

2. **The Department should work with the Federal Government to gain a common understanding on eligible costs before the Department prepares its budget and incurs related costs.**

Program delivery limits options

The Department limited its options to control the costs of the Provincial Training Allowance and Youth program.

Through the Provincial Training Allowance and Youth program, the Department provides income support to low-income adults involved in training programs. Public training institutions such as SIAST, community-based organizations, and private trainers deliver these programs.

In 1998-99, the Department spent a total of $29.2 million ($21.5 million – budget) on this Program. The Department identified the need to obtain additional monies throughout the year. It sought and obtained the Minister's and Treasury Board's approval for the additional money.

The Training Allowance Regulations set out the program's requirements and conditions that clients must meet to qualify for money. The

Regulations allow the Minister to set a deadline date for the receipt of applications. This provision provides the Minister with a way to control the length of the time the program is offered and in turn control the cost of the program without seeking changes to the regulations.

When the Department delivered the program, it did not advise the public of the Minister's option of setting a deadline date. That is, the program application form and public program descriptions do not mention this option. This reduces the ability of the Minister to use this option to help control the program's costs.

3. **The Department should provide the public with program information (e.g., applications, guidance, descriptions) that is fully consistent with the relevant regulations or authorities.**

Status of previous recommendations

In Chapter 4 of our 1998 Fall Report – Volume 2, we make three recommendations. We continue to recommend:

- the Department should provide legislators and the public with a clearer description of the accountability relationships between the Department and the key provincial post-secondary institutions;

- the Department should bring its planning efforts that focus on individual components of the post-secondary sector together to form a plan for the entire post-secondary education and skills training sector, and then report publicly against this sector-wide plan; and

- the Department should continue to improve its annual reports.

The Standing Committee on Public Accounts (PAC) met with the Department and discussed the above recommendations. In its March 1999 report, PAC noted the need for the Department to indicate the reporting responsibilities and expectations it has for the universities. In addition, it recommends that the Department bring its planning efforts together to form a plan for the entire post-secondary education and skills training sector, and then to report publicly against the sector-wide plan.

This section briefly discusses each recommended area and identifies key activities the Department has undertaken to move towards compliance with these recommendations.

Clarifying accountability relationships

As we discuss in Chapter 4 of our 1998 Fall Report – Volume 2, the nature of the post-secondary education and skills training sector is complex. It is critical that all the participants have a clear understanding of their accountability relationships and expectations. Without this understanding, the Department can not decide on the appropriate level of funding over the short and longer term. Also, it is difficult for the public and the legislators to determine if monies were spent effectively for the purposes intended.

During 1999, the Department finalized the *Evaluation and Policy Framework* document. This document outlines an accountability framework primarily for the training component of the post-secondary sector. It is available to the public on the Department's website. The framework applies to programs and policies directly or indirectly administered by the Department, (e.g., JobStart Future Skills delivered by SIAST). It helps clarify the Minister's and the Department's accountability relationships with the various entities delivering these programs.

However, the *Evaluation and Policy Framework* does not apply to areas where the Department does not take the lead in specifying program policy such as universities and apprenticeship programs. Therefore, the accountability relationships between the Department and some key participants such as the universities remain unclear.

Developing a sector-wide plan

The Department's 1998-99 planning efforts continue to focus primarily on initiatives for individual components of the post-secondary sector (e.g., training, student assistance, and universities). The Department has progressed in developing plans for the training sector (e.g., selecting performance measures). However, plans for components other than training are not yet as well defined.

In 1998-99, discussion and dialogue between the Department and the universities continued. However, little progress was made to comply with the above recommendations. Current performance information tabled in the Assembly for the universities is limited to the audited financial

statements. The University of Saskatchewan published an annual report for the year ending April 30, 1998. The University of Regina did not.

To date, neither the Minister nor the universities have provided legislators and the public with additional assurances about how well the universities safeguard and spend public money. Our Office provides legislators and the public with these assurances for various other components of the post-secondary sector (e.g., regional colleges, SIAST). We continue to encourage the Minister and the universities to do the same.

Setting out plans for all the components will provide a foundation for the creation of a sector-wide plan. A plan for the post-secondary education sector should describe the Department's broad direction for the entire post-secondary education and skills training sector. It would set out the goals, objectives and the related performance targets and indicators for the entire sector and for its key components, and the cost of this plan over the short and longer term.

Without a sector-wide plan, the Department can not determine if the costs of post-secondary education and skills training are appropriately shared. It is also difficult for the legislators and the public to determine how the various initiatives and components fit together.

Reporting on performance - Annual Report

The Department's 1998-99 annual report is not significantly different from the Department's previous annual reports. The Report lists the broad goals for one component of the Department's work, the *Saskatchewan Training Strategy*. It does not clearly set out all of the Department's goals and objectives necessary to achieve all of its responsibilities, e.g., student financial assistance.

The Report continues to describe the Department, its branches and units, and their objectives, major activities and accomplishments. It does not set out the criteria the Department uses for recognizing its success in achieving its goals and its branches' objectives (i.e., measures and indicators of success).

The Report does not clearly link its branches' objectives to the Training goals provided. Without the indicators of success and linkages, it is difficult to determine the Department's progress towards achievement of its goals and objectives.

The 1998-99 annual report became available to the legislators and the public in March 2000. Late reporting decreases the usefulness of the information reported.

Also, the Report refers to another publicly available Department report, the 1998-99 *Annual Progress Report - Saskatchewan Training Strategy: Bridges to Employment* (Progress Report). The Progress Report lists specific actions and the achievements to date. It also reports on the status of all objectives under the three main goals within the Training Strategy. Some objectives include measures and indicators of success; while others do not as yet.

Status of previous Student Aid Fund recommendations

In Chapter 16 of our 1999 Spring Report, we make the following three recommendations:

- The Department should verify critical information on student loans.
- The Department should document its accounting policies and procedures for accounting for the Fund's transactions and for preparing periodic financial reports for the Fund.
- The Department should improve its periodic financial reports for the Fund.

We continue to make these recommendations. In this section, we provide an update on the status of these recommendations.

Verification of critical information continues to be needed

The Department does not yet verify all critical information. This increases the Department's risk of incurring unnecessary costs and of not complying with the law.

During the 1999 year, the Department approved approximately 16,000 student loans (1998: 14,000 loans) for approximately $117 million (1998: $107 million). This includes $52 million of Saskatchewan Student Loans and $65 million of Canada Student Loans. In addition during 1999, the Department paid grants to students and incurred other costs of $32 million (1998: $25 million). These grants and other costs are based on the amounts of the loans awarded to students. When the Department

approves loans to students in excess of the amounts they are entitled, these grants and other costs also increase.

The Department must decide which applicant information to verify before approving loans and which information to verify at a later date. Sufficient and timely verification of critical information reduces the Department's risk of incurring significant additional costs or of not complying with the provisions of *The Lender-financed Saskatchewan Student Loans Regulations*. Verification of information takes time and money.

As previously reported, verifying critical information on student loan applications ensures only eligible students receive aid in the correct amounts. The Department must balance the time and costs it takes to verify applicant information with the need to provide students with timely financial assistance.

In 1998, the Department improved some of its verification procedures. It requested more timely information of students' pre-study incomes. This enabled the Department to reduce students' loans and thus to reduce the amounts of overpayments.

Although the Department is making progress in improving the information it obtains from students and verifying that information, more work is needed. Critical information which the Department does not yet sufficiently verify includes the number of dependants, single parent status, receipt of daycare allowances, alimony/child support payments, study period income, and scholarship funds.

In April 1999, the Standing Committee on Public Accounts (PAC) concurred with our recommendation that the Department should verify critical information on student loans. PAC had previously concurred with the same recommendation in December 1996. Our Office has reported this matter for several years.

The Department advises us that it has plans for further improvements to its verification procedures. Beginning in August 1999, it will request timely information on actual study term income from students.

Documented policies and procedures needed

The Department has not yet documented its policies and procedures for accounting for the Fund's transactions or for preparing financial reports for

senior management and the Trustees. During 1999, the Department started to document its accounting policies and procedures, but is not yet complete.

Periodic financial reports need improvement

The Department has not yet revised the format and content of the quarterly financial reports for the Fund. The financial reports:

- did not include a comparison of actual results to those planned;
- did not include a current forecast of results to the end of the year; and
- did not explain major differences between actual results and those planned.

The Department advises us that it plans to revise the format and content to address the deficiencies noted.

Detailed audit findings relating to the Regional Colleges

In this section, we set out findings under three main areas:

- areas where the colleges can improve their rules and procedures used to safeguard and control public money;
- areas where colleges have not complied with *The Regional Colleges Act*; and
- another matter of significance to the Assembly.

Safeguarding and controlling public money

Written rules and procedures required

Carlton Trail Regional College needs adequate written rules and procedures to safeguard and control its assets.

Sound written rules and procedures provide for the orderly and efficient conduct of business. Specifically, they set out administrative control procedures for all accounting activities.

During the year, Carlton Trail did not have written rules and procedures to ensure:

- entries recorded in its accounting records were properly authorized or accurate,
- key reconciliations of detailed records to amounts recorded in its accounting records were independently reviewed and approved, and
- the continued existence of its capital assets.

As a result, Carlton Trail did not ensure all entries recorded in its accounts were properly authorized and accurate. Carlton Trail did not always correctly reconcile its recorded bank balances with its bank's records or reconcile its capital asset records to the amount recorded in its accounting records. Also, it did not regularly agree the detailed records of amounts owed to Carlton Trail to the total amount recorded in its accounting records. Management did not independently review and approve the reconciliations prepared. Also, Carlton Trail did not periodically inspect its assets to verify their existence and condition.

Lack of proper written rules and procedures increases the risk of errors, of fraud, of breakdowns in control and of unauthorized transactions. Without complete written rules and procedures, the College cannot be assured it has accurate financial information with which to make decisions.

4. **We recommend management at Carlton Trail Regional College prepare written rules and procedures to ensure:**

   - **the proper authorization and recording of transactions;**
   - **the senior management review and approve key reconciliations of accounting records; and**
   - **the periodic examination of capital assets to verify their existence.**

Some progress noted on improving performance measurement and reporting

The boards of each of the three colleges we examined need to continue to improve how they measure and report on their performance (i.e., their results). Some progress is noted since our last report, but more is needed.

Since 1996, our Office has reported on the boards' need for better performance information. In February 1998, PAC concurred with our recommendations set out in Chapter 11 of our 1996 Fall Report.

We continue to recommend that the colleges improve the performance reports used by the boards of directors to monitor the colleges' performance.

Moving to a focus on results takes time. The colleges continue to work slowly on the next steps. These include identifying key performance indicators and targets, and developing systems to track information on them. This will enable colleges to provide their boards, the Department, the Assembly and the public with information necessary to judge their performance.

We look forward to continued progress from the colleges and the Department in this important area.

Financial reporting needs improving

Parkland Regional College and Carlton Trail Regional College need to improve the financial information provided to their boards of directors.

Boards need timely and useful information to carry out their stewardship function. Written reporting policies help ensure management clearly understands the Board's information needs. The lack of written rules and procedures increases the risk of errors, fraud and breakdowns in control.

Boards need useful financial information throughout the year (e.g., monthly, quarterly). Useful financial information would:

- be prepared in accordance with generally accepted accounting principles including what the college owns, what it owes and the balances in its various funds;

- compare actual results for the period (e.g., monthly or quarterly) and for year to date with those planned; and

- explain the nature and extent of differences between planned and actual results.

In Chapter 16 of our 1999 Spring Report, we recommend Parkland use generally accepted accounting principles to prepare its financial reports throughout the year.

Parkland made improvements in 1998-99 to its financial reports. However, the financial reports received by the Board do not include key financial information. This key information includes actual year-to-date amounts, budget amounts for the year to date, forecasted amounts to year end, original budget and the nature and extent of differences between these amounts.

Also, the financial reports received by the Board of Carlton Trail Regional College, throughout the year, did not include a balance sheet that showed what it owed and what it owned, an income statement in the same format as the external financial statements and budget to actual comparisons.

5. **We recommend that Carlton Trail Regional College use generally accepted accounting principles to prepare its financial reports throughout the year.**

Subsequent to the audit, the Board of Parkland Regional College received financial reports that include the key financial information previously mentioned.

Contingency plans still needed

Parkland Regional College needs to improve its contingency planning processes to ensure it can operate effectively in case of major loss or destruction of its computer systems.

As previously reported, Parkland depends upon its computer system. To provide continuous services, the College must ensure its systems and data are available when needed. Sound contingency plans reduce the risk of systems failing, processing data inaccurately and business disruption.

We recommend in our 1998 Report and 1999 Report that Parkland Regional College needs to prepare an adequate contingency plan and test it to ensure it works. In November 1998, PAC considered our recommendation and concurred with it.

Subsequent to the audit, management developed and tested a contingency plan.

Non-compliance with *The Regional Colleges Act*

North West Regional College and Carlton Trail Regional College did not comply with certain provisions of *The Regional Colleges Act* (the Act).

At the time of the audit, the appointments of two of the seven board members of North West expired. One of these members is the chair. These two members continued to serve on the Board. North West did not obtain Cabinet's authority (i.e., Order in Council) to extend the terms of the board members appointments as required by section 7(1) of the Act.

Also, the Chair of the Board of North West has served more terms than allowed under Regulation 4(2) under the Act.

As a result, these Board members may be making decisions without adequate authority.

6. **We recommend North West Regional College obtain Cabinet's approval (i.e., Order in Council) as required by *The Regional Colleges Act* to either reappoint existing Board members or to appoint new members.**

7. **We recommend that the Minister of Post-Secondary Education and Skills Training appoint a different chair as required by the regulations or ask Cabinet to amend the regulations.**

Also, Carlton Trail did not submit its budget to the Minister of Post-Secondary Education and Skills Training by the date specified as set out in section 15(1) of the Act.

8. **We recommend Carlton Trail Regional College submit its budget to the Minister of Post-Secondary Education and Skills Training by the date specified.**

Other matter

During the year, Carlton Trail Regional College paid almost $64 thousand on a construction project for which it did not have a signed contract. Subsequent to the year end, the College did sign a contract covering the project.

Workers' Compensation Board

5

Introduction 73

The WCB revised its 1998 financial statements 73

1999 financial statements are reliable 75

The WCB and the appointed auditor need to follow management/auditor protocols 75

This page left blank intentionally.

Introduction

The Workers' Compensation Board (WCB) operates under *The Workers' Compensation Act, 1979* (Act). This Act establishes a mandatory no-fault compensation program for Saskatchewan workers. The Board of the WCB administers this program and manages the WCB. It also hears and adjudicates claims on appeal.

For the year ended December 31, 1999, the WCB had revenues of $237.7 million, expenses of $244.5 million, net deficit of $6.8 million and held net assets of $132.3 million at December 31, 1999. The WCB plans to include its 1999 financial statements including comparative information for 1998 in its 1999 annual report.

In this Chapter, we report:

- the WCB revised its 1998 financial statements;
- the WCB's 1999 financial statements are reliable; and
- that the WCB and the appointed auditor need to follow management/auditor protocols.

The WCB revised its 1998 financial statements

In our 1999 Fall Report – Volume 2, we report the WCB's 1998 financial statements are not reliable. We said this because the WCB had not reported properly on the rebates it decided to provide to employers.

In 1998, the WCB decided to provide the following rebates to employers.

- First, the WCB decided that certain employers with claims experience better than that of their industry group should receive rebates totalling $14 million.
- Second, the WCB decided that certain employers who paid the WCB more than the cost of their injury claims for the three-year period ended December 31, 1998 should receive further rebates totalling $23 million.

- Third, the WCB decided that certain employer groups who paid the WCB more than the cost of their group's injury claims for the period ended December 31, 1996 should receive rebates totalling approximately $9 million.

The WCB recorded the second rebate in its 1998 financial statements as a surplus dividend to the employers rather than a reduction of revenue and net income. We think the WCB should have recorded the second rebate as a reduction of net income.

The WCB did not record the third rebate in its 1998 financial statements. We think the WCB should have also recorded this rebate in its 1998 financial statements as a reduction of revenue and net income.

Also, in 1998 the WCB decided to levy additional premiums on those employer groups who paid less premiums than their group's injury claims (deficit) for the period ended December 31, 1996. The WCB did not record in its 1998 financial statements the additional premiums it decided to levy on those employer groups to recover the deficit.

In 1999, management told us for the year ended December 31, 1998, these additional premiums amounted to $5 million. Management did not provide us any evidence so we could not verify the amount of these additional premiums.

As a result, in our 1999 Fall Report – Volume 2, we state we are unable to determine the WCB's 1998 financial results. In our Report, we also said we would work with the WCB to verify the amount of the additional premiums that the WCB should record in its 1998 financial statements.

We have now completed our work on the WCB's 1998 financial statements. Management has revised the WCB's 1998 financial statements to properly record the second rebate as an expense and a reduction of net surplus (net income). The WCB has also revised the 1998 financial statements to properly record the third rebate and additional premiums levied on certain employer groups.

In our 1999 Spring Report, we recommend the WCB should amend and reissue its 1998 financial statements. The WCB addressed this recommendation by including the revised 1998 financial statements as comparative information in the WCB's 1999 financial statements. The

revised 1998 financial statements show net surplus of $24.6 million (previously stated $52.3 million).

1999 financial statements are reliable

We have completed our work on the WCB's financial statements for the year ended December 31, 1999. We worked with the appointed auditor to form our opinion on the WCB's financial statements using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to review a copy of this report, see our website at http://www.auditor.sk.ca/).

In our opinion, the WCB's financial statements for the year ended December 31, 1999 are reliable.

We have not yet completed our work on the WCB's rules and procedures to safeguard and control its assets and its compliance with legislative and related authorities. We have not completed all of our work because the WCB and the appointed auditor did not follow management/auditor protocols (discussed later in this Chapter) as we had expected. We will report our findings and conclusion on the WCB's rules and procedures to safeguard and control its assets and its compliance with authorities governing its activities in a future report to the Assembly.

The WCB and the appointed auditor need to follow management/auditor protocols

In our 1999 Fall Report – Volume 2, we report that we were concerned that confusion about the WCB's reported financial results may weaken public confidence in this important public agency. When the Government appoints private sector auditors to audit public agencies, we work with the appointed auditor using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors.* We were concerned that the WCB and its appointed auditor would continue to ignore the framework recommended by the Task Force. If management and the appointed auditor do not follow the recommended framework, we may not know all significant accounting and auditing issues and would not be able to effectively serve the Legislative Assembly.

To ensure the 1999 audit process worked well, so that we can serve the Legislative Assembly effectively, we met with the WCB and obtained its

commitment that all parties would work together to follow the management/auditor protocols recommended by the Task Force.

In January 2000, after discussion with the WCB's management and the appointed auditor, we agreed on an audit plan and provided our audit planning memorandum to the WCB and the appointed auditor. In that audit planning memorandum, we set out the agreed upon timetable and expectations.

The WCB and the appointed auditor did not follow the management/auditor protocols for the 1999 audit as we had expected. As a result, we have not been able to complete all our work for the Legislative Assembly. For the past two years, we have not been able to provide the Assembly with all the information it needs about the WCB because the WCB and the appointed auditor did not follow the management/auditor protocols as we had expected. To ensure the Assembly is served properly, and to ensure WCB can plan accordingly, we will inform the WCB of the extent of our direct audit work for the 2000 audit.

SaskPower

6

Introduction 79

Key issues 80

Our audit conclusions and findings 81

Follow up on matters reported in our 1998 Fall Report - Volume 2 82

Governance 82

Policy 83

Legislation 84

Tabling of financial statements 85

Follow up on matters reported in our 1999 Spring Report 85

New management information system (Delta Project) 85

Comparison of planned and actual results 86

List of persons who received public money 88

This page left blank intentionally.

Introduction

Saskatchewan Power Corporation (SaskPower) provides electrical energy in the Province.

SaskPower prepares consolidated financial statements to report on its activities. The consolidated financial statements include the financial activities of SaskPower and its subsidiaries.

In 1999, SaskPower had revenue of $977 million and net income of $114 million. At December 31, 1999, it held assets of $3.2 billion.

At December 31, 1999, SaskPower administered a pension plan and controlled the following companies:

SaskPower International Inc. (International)

International (formerly SaskPower Commercial Inc.) is incorporated under *The Business Corporations Act* [Saskatchewan]. SaskPower holds all the shares of International. International's mandate is to create opportunities in non-core and international markets and enhance the value of skills, technologies and products resident in SaskPower.

International had $1.2 million in assets at December 31, 1999. During 1999, International had revenues of $2.3 million and a net loss of $0.2 million.

Power Greenhouses Inc. (Greenhouse)

Greenhouse is incorporated under *The Business Corporations Act* [Saskatchewan]. SaskPower holds all the shares of Greenhouse. Greenhouse's mandate is to produce tree seedlings suitable for planting on the prairies.

Greenhouse had $3.4 million in assets at December 31, 1999. Its sole source of revenue is from SaskPower. During 1999, SaskPower reimbursed Greenhouse for its costs of operations totalling $0.5 million.

Northern Enterprise Fund (Northern)

SaskPower established Northern in 1988 to provide economic and educational support to the residents of northern Saskatchewan.

Northern had assets of $7.2 million at December 31, 1999. During 1999, it had revenues of $0.6 million from interest and investment income and an excess of revenue over expenditure of $0.1 million.

The Power Corporation Superannuation Plan (Plan)

The Plan is a defined benefit pension plan. *The Power Corporation Superannuation Act* established this pension plan for employees of SaskPower hired before October 1, 1977. A Board appointed by the Lieutenant Governor in Council administers the Plan.

At December 31, 1999, the Plan had assets of $707 million and liabilities of $633 million.

Key issues

We think Members of the Legislative Assembly (MLAs) and the public need to know the key issues and risks facing Crown corporations and Crown agencies. Also, they should receive information on these issues to understand and assess a corporation's performance.

In our 1998 Fall Report – Volume 2 and our 1999 Spring Report, we report that we intend to ensure the key issues that affect SaskPower are identified and reported to the Assembly.

We discussed this matter with SaskPower management in 1999 and received excellent co-operation. We noted that the information included on SaskPower's web site, http://www.saskpower.com/, was improving significantly. Also, on reviewing SaskPower's publication called *The Business Line*, we noted that various editions discussed key issues and risks faced by SaskPower. *The Business Line* is a publication produced by SaskPower to provide information on the corporation for the benefit of employees. SaskPower also provides *The Business Line* to MLAs and other interested parties through a mailing list. The publication is produced bi-monthly and copies can be obtained by contacting SaskPower Communications and Public Affairs.

We asked SaskPower management to consider devoting an edition of *The Business Line* to discussing the key strategic issues affecting SaskPower. SaskPower management agreed and on November 4, 1999, Volume IV, Issue 20 of *The Business Line* was devoted entirely to the topic of managing strategic issues faced by SaskPower.

In the November 4, 1999 issue of *The Business Line*, SaskPower discusses the following strategic issues.

- The Year 2000 issue;
- The need for a safe environment for employees and customers;
- The need for good employee relations and continuous learning;
- Employment diversity;
- Financial performance;
- Managing the energy supply;
- The Delta Project (new management information system);
- Managing billing rates;
- Environmental concerns; and
- Deregulation/competition.

We congratulate SaskPower on the improvements made in communicating the key issues and risks faced by the Corporation.

We encourage SaskPower to continue to keep MLAs and the public informed of the key issues and risks it faces and of its plans and targets to manage those issues and risks. SaskPower has begun to do this by including discussion of the issues and risks in the management discussion and analysis section of its annual report. We encourage SaskPower to continue to discuss the risks it faces, together with its plans and targets to manage those risks, in its annual reports.

Our audit conclusions and findings

Our Office worked with Ernst & Young, the appointed auditor for SaskPower, International, Northern and the Superannuation Plan. Also, our Office worked with Matchett, Potts & Seipp, the appointed auditor for Greenhouse. Our Office and the appointed auditors worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/). The appointed auditors and our Office formed the opinions below.

In our opinion, for the year ended December 31, 1999:

- **the financial statements of SaskPower, of the companies it controlled and of the Plan are reliable;**
- **SaskPower had adequate rules and procedures to safeguard and control its assets, except for the matters we report in this Chapter;**
- **the companies controlled by SaskPower and the Plan had adequate rules and procedures to safeguard and control their assets; and**
- **SaskPower, the companies controlled by SaskPower and the Plan complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing.**

We also report progress on matters reported in our 1998 Fall Report – Volume 2 and our 1999 Spring Report. The appointed auditors did not report the matters noted in our recommendations 1 to 4.

Follow up on matters reported in our 1998 Fall Report - Volume 2

SaskPower has made significant progress in addressing the recommendations made in our 1998 Fall Report – Volume 2. Progress on the remaining issues was impacted by SaskPower's need to focus on the Year 2000 issue and to implement a comprehensive new management information system (Delta Project). The following matters remain outstanding.

In this section, we discuss SaskPower's progress in addressing our remaining recommendations under the headings of governance, policy, legislation, and tabling.

Governance

Previously, we recommended that the SaskPower Board of Directors should:

- Review SaskPower's existing policies and procedures to ensure the Board's direction is fully and appropriately documented.

- Receive periodic reports directly from SaskPower's internal auditor on whether management is operating in compliance with the Board's direction and policies.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendations.

Management's Comments

SaskPower agrees with the above recommendations.

Management has asked the Controller's Office and Internal Audit to examine the Board of Director's minutes and ensure any decisions affecting corporate policies are properly documented.

Also, Internal Audit will continue to review management's compliance with corporate polices, as part of their cyclical audits, and report their findings to the Board of Directors via the Audit and Finance Committee.

Policy

Previously, we recommended:

- SaskPower should adopt a policy requiring that the sale of significant public assets, such as Channel Lake or the ten-year gas supply contract, be tendered, unless such tendering will not ensure the best value. When significant assets are to be sold without public tender, the Board should require management to identify the advantages and the risks involved and provide a plan to manage those risks for Board approval.

- SaskPower should adopt a policy requiring at least two representatives from SaskPower to be involved in the negotiation of all key contracts.

- SaskPower should adopt a policy requiring that management appropriately examine all significant contracts with the results of such examination to be documented and reviewed prior to the signing of contracts.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendations.

Management's comments

SaskPower agrees with the above recommendations.

Management is currently working on written policies to fully address each of the recommendations.

Legislation

Previously, we recommended:

- The Government should consider strengthening current laws governing the purchase and sale of shares to require Crown corporations to obtain an Order in Council when selling shares or securities of any corporation.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendation.

This recommendation is not specific to SaskPower but applies to all Crown corporations. We include the recommendation here so that MLAs and the public can see progress made on matters originally reported in our 1998 Fall Report – Volume 2.

In 1999, we found no instances where SaskPower or its subsidiaries purchased or sold shares or securities of any corporation.

In February 2000, the Government's response to the Third Report of the Standing Committee on Public Accounts for the Twenty-Third Legislature, stated.

> In June 1998, Crown Investments Corporation addressed this issue through issuance of a policy for the Authorization and Disclosure of Subsidiary Investment Activities which require all subsidiaries obtain an Order in Council before purchasing shares.
>
> Due to confidentiality around the sale of assets, CIC's policy on disclosure of significant transactions with the Crown Corporations Committee (CCC) is to provide the forum for discussion and analysis of a sales transaction. A significant transaction must be reported to the CCC within 90 days of the transaction date.

We consider the policies noted in the Government's response to be reasonable. However, we believe the policies should be put into law.

1. **We recommend the Government change current laws to:**

   - **require subsidiaries of Crown corporations to obtain an Order in Council before purchasing shares; and**

   - **require Crown corporations and their subsidiaries to report the sale of shares to the Crown Corporations Committee within 90 days of the transaction date.**

Tabling of financial statements

Previously, we recommended:

- The Government should table the financial statements of the Northern Enterprise Fund Inc. in the Legislative Assembly.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendation.

Management's comments

SaskPower agrees with the above recommendation.

Management is working with Northern's Board of Directors to table Northern's financial statements in the Assembly.

Follow up on matters reported in our 1999 Spring Report

In this section, we discuss SaskPower's progress in addressing the recommendations our 1999 Spring Report. We discuss SaskPower's progress under the headings of new management information system, comparison of planned and actual results, and list of persons who received public money.

New management information system (Delta Project)

Previously we recommended:

- SaskPower set measurable targets for the annual planned benefits over the Delta Project's five-year business plan and report its progress against these targets to its Board and in its annual reports.

2. **We continue to recommend SaskPower set measurable targets for the annual planned benefits over the Delta Project's five-year business plan and report its progress against these targets to its Board and in its annual reports.**

Management's Comments

SaskPower agrees with the above recommendation.

Management and the Board are committed to ensuring the planned benefits are achieved.

During 1999, SaskPower focused on implementing the Delta Project. Now that the Delta project has been implemented, SaskPower is working to ensure the planned benefits of the project are achieved. SaskPower's progress is closely monitored by the Audit and Finance Committee.

As progress is made, SaskPower plans to work with the Provincial Auditor on how to measure and report on the planned benefits as they are achieved.

Comparison of planned and actual results

Previously, we recommended

- SaskPower should ensure its annual report and the annual reports of its subsidiaries and its pension plan include a comparison of planned activities to actual results.

On January 4, 1999, the Standing Committee on Public Accounts agreed to recommend that the Assembly refer this matter to the Standing Committee on Crown Corporations for its review and consideration.

Progress noted

SaskPower has improved its annual report. However, SaskPower's annual report and the annual reports of its subsidiaries do not yet include full comparisons of planned activities to actual results.

To assess the performance of Crown agencies, MLAs and the public need adequate summary information about the plans of those agencies and about the achievement of those plans. All public sector agencies should provide their vision, long-range goals, specific objectives, key performance targets, and main strategies for achieving those targets. They should also report on the extent to which they achieved those plans and targets.

SaskPower has made good improvements to its annual report. For example, the 1999 annual report includes SaskPower's mission, vision and values. Also, SaskPower significantly expanded its section on management discussion and analysis. It includes five financial indicators considered key to the corporation's success, and shows its progress against these targets over a five-year period. Other notable improvements include a discussion of future challenges and opportunities facing SaskPower and a discussion of priorities and issues for the future. SaskPower's annual report also provides key operating data (e.g., number of customers, power usage by customer class, revenue by customer class and power generation statistics by type of generation).

Currently, SaskPower management is experimenting with ways to improve its public reporting using the framework provided by the Balanced Scorecard performance measurement system adopted by Crown Investments Corporation of Saskatchewan (CIC). The Balanced Scorecard is used to evaluate financial performance as well as the achievement of targets in the areas of innovation and growth, customer satisfaction and public policy.

Also, SaskPower now produces an annual report for its pension plan. We consider the 1999 annual report for SaskPower's pension plan to be an excellent report. It is among the best we have seen for the Government's pension plans.

We think SaskPower should continue to improve its annual report and the annual reports of its subsidiaries by including information on SaskPower's long-range goals, specific objectives, key performance targets and the corporation's main strategies for achieving those targets.

We think disclosing a clear and meaningful comparison of planned performance to actual results will help MLAs and the public understand and assess the performance of SaskPower, its subsidiaries and its pension plan.

3. **We continue to recommend SaskPower should ensure its annual report and the annual reports of its subsidiaries include a full comparison of planned activities to actual results.**

Management's comments

SaskPower's management is committed to improving the quality of the information provided to the public. Currently, management is working with key elements of the Balanced Scorecard performance measurement system. The Balance Scorecard is used to evaluate financial performance as well as achievement of targets in the areas of innovation and growth, customer satisfaction and public policy.

SaskPower management are committed to meeting or exceeding the timetable set by CIC of Saskatchewan for public reporting of the Balanced Scorecard.

SaskPower's goal is to be a leader in performance reporting.

List of persons who received public money

Previously, we recommended SaskPower and its subsidiaries should:

- publish a list of persons who received money from them and the amounts the persons received following the Standing Committee of Public Account's (PAC) current minimum disclosure amounts; or

- discuss different public disclosure requirements with PAC or, if the Assembly so directs, with the Crown Corporations Committee.

On January 4, 1999, the Standing Committee on Public Accounts agreed to recommend that the Assembly refer this matter to the Standing Committee on Crown Corporations for its review and consideration.

SaskPower and its subsidiaries did not give the Assembly a list of persons who received public money in 1999.

In Chapter 15 of our 1999 Fall Report – Volume 2, we discuss this matter more fully including why the information is important.

4. **We continue to recommend SaskPower and its subsidiaries should:**

   - **publish a list of persons who received money from them and the amounts the persons received following the Standing Committee of Public Account's (PAC) current minimum disclosure amounts; or**

   - **seek direction from PAC or, if the Assembly so directs, from the Crown Corporations Committee.**

Management's comments

SaskPower's reporting on financial performance is consistent with other CIC Crowns and complies with direction from its parent Crown Investments Corporation of Saskatchewan.

This page left blank intentionally.

Saskatchewan Water Corporation

7

Executive summary **92**

Introduction **93**

Our audit conclusions and findings **93**

Better security needed 94

Audit of SaskWater's investment in the potato industry 95

Our audit objective 95

Our audit conclusions and recommendations 95

Key decisions and events regarding the potato industry investment 96

General criteria and approach used 100

Our audit findings 100

Setting clear investment objectives including evaluating risks, costs and benefits 101

Monitoring the investment 103

Evaluating the investment 103

Reporting on the investment 104

Annual Report needs improvement 104

List of persons who received public money 105

Executive summary

In this Chapter, we report the results of our audit of SaskWater for the year ended December 31, 1999 and the results of the work we did on SaskWater's management of its investment in the potato industry from 1996 through 1999.

SaskWater's 1999 financial statements are reliable and properly report its $21.7 million investment in potato storage facilities and equipment, and its losses on its investment in the potato industry. SaskWater complied with the authorities governing its activities. We found problems with SaskWater's rules and procedures for safeguarding and controlling public money.

We found that SaskWater did not have adequate investment management practices for its investment in the potato industry during the period from 1996 through most of 1998.

Until late 1998, most of SaskWater's objectives for its investment in the potato industry were not clear or measurable. Also during this time, SaskWater did not consistently evaluate the risks that may prevent it from achieving its objectives or analyze the costs and benefits of its planned actions. In addition, SaskWater did not decide the measures it would use to assess the extent to which it achieved its objectives for the investment.

Since late 1998, SaskWater's investment management practices are adequate. It has clearly set out its plans for the investment in the potato industry and has analyzed the risks, costs and benefits of those plans.

Also in this Chapter, we report that SaskWater needs to improve its security policies for its information technology systems and data. Adequate security policies, reduce the risk of financial losses from the release of confidential information, from decisions based on incorrect information, or from the loss of information.

Introduction

The Saskatchewan Water Corporation (SaskWater) operates under the authority of *The Water Corporation Act*. SaskWater manages, develops, controls, and protects the water and related land resources of Saskatchewan. SaskWater has three main lines of business: water management, water supply and services, and water-based economic development.

At December 31, 1999, SaskWater held assets of $96.6 million, had revenues of $32.5 million, and expenditures of $42.1 million. SaskWater's 1999 Annual Report includes its financial statements.

This Chapter contains our audit conclusions and findings regarding SaskWater for the year ended December 31, 1999.

Our audit conclusions and findings

Our Office worked with PricewaterhouseCoopers, the appointed auditor for SaskWater using the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/). The appointed auditor and our Office formed the opinions below.

In our opinion, for the year ended December 31, 1999:

- **SaskWater's financial statements are reliable;**
- **SaskWater had adequate rules and procedures to safeguard and control its assets, except that SaskWater should set appropriate security policies for its information technology systems and data; and**
- **SaskWater complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing.**

In addition, our Office examined the adequacy of SaskWater's rules and procedures for managing its investment in the potato industry. Our conclusions and findings are set out in this Chapter.

We also report on our assessment of SaskWater's annual report and another matter for the attention of the Legislative Assembly.

Better security needed

SaskWater needs to strengthen security over its information technology (IT) systems and data.

SaskWater depends on a number of IT systems to deliver its services to customers, to ensure compliance with acts and regulations governing its services, and to manage its financial affairs. As a result, SaskWater must protect its IT systems and data from unauthorized access and changes and from accidental or deliberate destruction. Exhibit 1 sets out criteria that organizations can use to reduce IT security risks to an acceptable level.

Exhibit 1

To ensure information technology (IT) security risks are reduced to an acceptable level organizations should:

- identify the threats and risks to IT systems and data;
- involve senior management in the review and approval of security policies and procedures needed to reduce the risk to an acceptable level;
- clearly assign the roles and responsibilities for IT security;
- inform and train staff of its IT security responsibilities;
- approve written and tested contingency plans for IT systems;
- monitor the effectiveness of approved security policies and procedures; and
- report the results of monitoring to senior management.

SaskWater has established a number of security practices to protect its IT systems and data (e.g., passwords to restrict access to data and regular backups of data in case data is lost). However, we noted that SaskWater does not have complete and approved security policies for its IT systems and data. As a result, SaskWater's current IT security management practices do not provide sufficient guidance to staff on the level of protection its IT systems and data need or on the security responsibilities of staff. This guidance is critical to meeting the criteria set out in Exhibit 1.

Without approved security policies that provide appropriate guidance to staff, SaskWater's information systems and data are at risk. This could result in financial losses caused by the release of confidential information, decisions based on incorrect information or the loss of information. Also, inadequate security policies and procedures could impair SaskWater's ability to comply with and enforce legislative authorities.

1. **We recommend that SaskWater set appropriate security policies for its IT systems and data.**

Management told us that SaskWater intends to implement security policies and procedures based on the security guidelines that the Government is currently developing.

Audit of SaskWater's investment in the potato industry

SaskWater's financial statements show that in 1999, SaskWater lost $8.9 million on its potato investment activities. Of this loss, $5.2 million resulted from the bankruptcy of the largest potato grower in the Lake Diefenbaker area, the Lake Diefenbaker Potato Corporation (LDPC). At December 31, 1999, SaskWater's investment in the potato industry consisted mainly of potato storage facilities and equipment. SaskWater's 1999 financial statements report these assets at $21.7 million.

The public is interested in SaskWater's investment in the potato industry. The public wants to know if SaskWater managed this investment well. In the following section, we set out our conclusions and findings from our audit of SaskWater's management of its investment in the potato industry.

Our audit objective

We examined the adequacy of SaskWater's systems and practices for managing its investment in the potato industry. Our audit covered SaskWater's systems and practices from 1996 through 1999. We did not assess whether SaskWater's objectives for its investment were appropriate.

Our audit conclusions and recommendations

We found SaskWater's rules and procedures for managing its investment in the potato industry were not adequate from 1996 through most of 1998.

- Most of SaskWater's objectives for the investment in the potato industry were not clear or measurable.

- SaskWater did not consistently identify and evaluate the risks that may have prevented SaskWater from achieving its objectives. Also, SaskWater did not consistently analyze the costs and benefits of its planned actions.

- SaskWater did not decide the measures it would use to assess the extent to which it achieved its objectives for the investment in the potato industry. As a result, SaskWater could not assess progress on the investment.

SaskWater's rules and procedures for managing its investment in the potato industry since late 1998 were adequate.

SaskWater complied with necessary authorities for its investment in the potato industry. SaskWater properly reports its losses on its investment in the potato industry in its financial statements. Also, SaskWater correctly reports its $21.7 million investment in potato storage facilities and equipment in its financial statements.

2. **We recommend SaskWater should adopt a policy to ensure it does not commit financial resources to significant investments until it has:**

   - **approved clear and measurable objectives for the investments;**

   - **analyzed the risks, costs and benefits of the investments; and**

   - **set performance indicators against which it can measure the extent of achievement of the investments' objectives.**

Key decisions and events regarding the potato industry investment

SaskWater has carried out water-based economic development activities for the Government for many years. Through these activities, the Government hoped to strengthen the economy by diversifying the use of

the existing irrigation system. Some of these activities involved the potato industry.

Before 1996, SaskWater provided potato growers with financial support where their activities increased the value of the irrigation system in the Lake Diefenbaker area. This support was in the form of grants to support research and development, and to assist potato growers with the cost of building infrastructure (e.g., storage) necessary to support the development of the potato industry.

In 1996, SaskWater's involvement in the potato industry changed. SaskWater began potato production and processing trials with two private sector growers to show that potatoes grown on irrigated land in Saskatchewan are economically viable.

Given SaskWater's assessment of the private sector's interest in the potato industry in the Lake Diefenbaker area, the Government included the development of the potato industry as a key strategy in its 1996 economic development strategy. The Government's strategy was to develop the industry to the point where it would attract a french fry plant in the province.

Several government organizations including SaskWater planned to work together to carry out the strategy. SaskWater's role was to contribute irrigation and agronomic services. SaskWater was to establish joint ventures with private sector growers, help expansion, then wind-down operations and allow the industry to continue on its own. SaskWater's joint ventures were not to exceed three years in length.

In late 1996, SaskWater's Board of Directors (Board) created a new division called SPUDCO to carry out SaskWater's activities in the potato industry. The Board also approved the division's first Business Plan (1997). The division's goal was to establish a fully-integrated potato production and processing industry in Saskatchewan by the fall of 1999. Specific objectives included partnering with the private sector to:

- construct and operate a world-scale fresh pack plant in Saskatchewan by the fall of 1997;

- construct and operate a french fry plant in Saskatchewan by the fall of 1999;

- expand potato production in the province until sufficient production exists to support the proposed industry;
- expand or construct new potato storage facilities; and
- expand irrigation infrastructure in the province.

In April 1997, SaskWater received approval from the Board of Crown Investments Corporation of Saskatchewan (CIC) to construct three storage facilities subject to conditions. One key condition was that total debt secured to finance construction was not to exceed $7.5 million. During 1997, the private sector built three potato storage facilities at a cost of $9.1 million. SaskWater provided interim financing during construction without securing debt. SaskWater intended to sell its interest in these facilities. These facilities can hold all the potatoes grown on approximately 3,000 acres of land. SaskWater's intention was to rent storage space to potato growers and to store its own production in these facilities as well.

In late 1997, SaskWater's Board confirmed SaskWater's direction for its potato activities through the approval of the SPUDCO division's 1998 Business Plan. In this plan, SaskWater approved crop sharing on 2,568 acres, the construction of four new storage facilities, the purchase of potato handling equipment, and the sale of one 1997 storage facility to the Lake Deifenbaker Potato Corporation (LDPC).

In April 1998, CIC's Board approved SaskWater's request to construct four storage facilities subject to conditions. Specifically, SaskWater had to obtain the financing for the facilities with the total debt not to exceed $14.5 million. Also, SaskWater was to develop an exit plan that would end its role in the commercial production, commercial storage, and marketing of potatoes by the end of the 1999 business cycle (by summer 2000).

In June 1998, the private sector corporation that was previously considering setting up a french fry plant in Saskatchewan announced it was building a plant in Alberta instead.

During the summer of 1998, SaskWater built four new potato storage facilities at a cost of $14.7 million. SaskWater used a combination of external borrowing and internal funds to pay for these facilities. These and the other three facilities can hold all the potatoes grown on approximately 6,650 acres of land.

During the fall of 1998, SaskWater learned that LDPC, the largest potato grower in the area, was in serious financial difficulty. At that time, LDPC owed SaskWater approximately $1.5 million for unpaid storage rental and other services.

In November 1998, SaskWater's Board approved SaskWater's participation in the financial restructuring of LDPC along with LDPC's two major creditors. The Board also set its direction for SaskWater's activities in the potato industry through the approval of the SPUDCO division's 1999 Business Plan and Business Strategy for 1999-2003. In these new plans, SaskWater's objectives for its involvement in the potato industry became clearer. Its focus shifted from developing the industry to preserving the value of the storage facilities. In addition, SaskWater's strategy for its investment in the storage facilities built in 1997 became long term and SaskWater gained control of these facilities.

In December 1998, as part of the above restructuring, SaskWater sold one of its potato storage facilities to LDPC. The terms of the sale agreement allowed LDPC to defer payment, including interest, on the facility for 10 years. Also, SaskWater changed the terms of LDPC's unpaid storage charges and other services to allow LDPC more time to pay these obligations. In addition, SaskWater signed an agreement with LDPC's two major creditors (a federal Crown corporation and a bank).

The purpose of this agreement was to attempt to provide financial stability to LDPC. This agreement gave SaskWater the right to recover the storage facility in the event of LDPC's bankruptcy. The other two main creditors had priority rights to LDPC's other assets. In the event that the bank did not recover the full amount of its debt due from LDPC, SaskWater was required to pay to the bank an amount equal to the lesser of the unrealized portion of the bank's debt or $2.5 million.

In May 1999, the bank began bankruptcy proceedings against LDPC. This resulted in SaskWater's storage facilities being significantly underused in 1999.

Late in 1999, under the bankruptcy proceedings, SaskWater regained control of the storage facility previously sold to LDPC. Also, SaskWater paid $1.25 million to the bank as required under the agreement.

General criteria and approach used

Auditors use criteria to evaluate the matters they audit. Criteria are reasonable and attainable standards of performance and control against which they can assess the adequacy of rules and procedures. Reasonable and attainable criteria are those that management can realistically expect to meet.

The criteria that we and SaskWater agreed to use to evaluate the adequacy of SaskWater's management of its investment in the potato industry are:

- the investment's objectives should be clear, measurable and approved in accordance with government policy;
- management should appropriately monitor the investment to maintain a current knowledge of its status and of variables that affect the achievement of the stated objectives;
- the investment should be adequately evaluated to assess progress made towards achievement of stated objectives and to consider if additional action should be taken; and
- adequate reports about the investment should be provided to the Board of Directors, CIC and Cabinet in accordance with government policy, and to the Legislative Assembly.

We examined SaskWater's documents regarding its investment and interviewed key SaskWater management.

We did our examination in accordance with the standards for assurance engagements recommended by The Canadian Institute of Chartered Accountants.

Our audit findings

The following is a summary of our audit findings grouped by audit criteria:

- setting clear investment objectives including evaluating risks, costs and benefits;
- monitoring the investment;

- evaluating the investment; and
- reporting on the investment.

Setting clear investment objectives including evaluating risks, costs and benefits

1. Clarity and measurability of objectives

We expected SaskWater to approve clear and measurable financial and operational objectives for its investment. When objectives are not clear, there is risk that management will make decisions that do not ensure it achieves SaskWater's goals. When the objectives are not measurable, it is not possible to determine whether the objectives have been achieved.

We found that SaskWater's SPUDCO division 1997 and 1998 plans did not clearly set out all of SaskWater's objectives to achieve its goal for its potato industry investment. Those plans documented SaskWater's original goal for the investment. The goal was to facilitate economic development by supporting the establishment of a fully-integrated potato production and processing industry in Saskatchewan by the fall of 1999, but to do so in a way that resulted in a financial return to SaskWater on its investment. The intent was for the private sector to build a fresh pack plant in 1997 and a french fry plant as early as 1999.

Some of the specific objectives for SaskWater's planned involvement in the potato industry were clear and measurable, while others were not. SaskWater set clear and measurable objectives relating to acres of potato production and the expected financial impact that growing and selling potatoes would have on SaskWater. However, SaskWater did not set out clearly its objectives relating to the extent of financial involvement SaskWater would have in building storage facilities necessary to support the planned potato production. In its 1997 plan, SaskWater expected the private sector to build storage facilities and that the Government may have to invest up to $1 million in the storage facilities. The plan did not set out which government agency would make an investment in these facilities or the process SaskWater would follow to obtain the involvement of another government agency. In 1997, SaskWater changed its plan and partnered with a private sector company to construct three potato storage facilities that cost $9.1 million.

Also, in 1997 and 1998, SaskWater did not set out how it planned to meet its objective of ensuring a fresh pack plant and a french fry plant operated in Saskatchewan or how it planned to measure the impact its activities had on economic development.

We found that in the 1999 SPUDCO Business Plan, SaskWater identified clear and measurable objectives for its involvement in the potato industry.

2. Risks, costs and benefits

We expected SaskWater to identify the risks that may prevent it from achieving its objectives. We also expected SaskWater to analyze the costs and benefits of its proposed activities. Without this information, SaskWater would be at higher risk of financial losses and not achieving its objectives.

SaskWater's potato industry investment is subject to many risks. Some key risks are: changing potato prices, growing conditions (e.g., weather, disease, insects), inadequate storage, equipment failure, international trade implications, and private sector investment. We found the Board was not provided a comprehensive assessment of the risks that SaskWater faced in the potato industry before it approved the 1997 and 1998 business plans. This would make it difficult for the Board to understand the factors that may prevent the achievement of its objectives. In late 1998, the Board received a comprehensive risk analysis from management.

SaskWater did not carry out sufficient cost/benefit analyses prior to approving its 1997 and 1998 SPUDCO business plans. At this time, one of SaskWater's main goals was to facilitate economic growth in the potato industry. SaskWater's plans did not show that the economic development benefits expected from the planned activities would exceed the costs.

3. Approval of investment objectives

We expected the Board of SaskWater to review and recommend the investment objectives to the Board of CIC for its approval.

As required by government policy, SaskWater's Board and CIC's Board approved SaskWater's objectives for the investment in the potato industry. SaskWater documented these objectives in its annual SPUDCO division business plans.

Monitoring the investment

We expected SaskWater to compare planned and actual results for the investment and to analyze variables that may prevent the achievement of the investment's objectives.

We found that management prepared periodic reports on the status of the investment. However, these reports did not include adequate information to monitor and control the investment. Until late 1998, management did not periodically identify and evaluate risks that may affect the achievement of the investment's objectives.

We found that management did not always provide the Board with risk analyses when specific decisions were brought forward to the Board for approval. Also, we found that some significant decisions were made without adequate analysis of the expected costs and benefits of those decisions. For example, in 1997, SaskWater made a significant investment in potato storage facilities without analyzing the risks of the investment and without adequate information from which SaskWater could decide whether the benefits of the proposed storage facilities exceeded the costs.

Evaluating the investment

We expected SaskWater to periodically compare the current status of the investment to the expected results as set out in the plan and to explain differences. We expected SaskWater to use performance indicators to measure the extent to which its investments have achieved the planned objectives. Boards should approve the performance indicators which management will use to evaluate the extent of achievement of the approved objectives. This ensures management and the Board use appropriate information to evaluate the progress of the investment. With this information, management can propose changes to the plans for approval by the Board.

Since 1997, management periodically prepared reports and used them to evaluate the investment's progress. These reports included much useful information but did not consistently address all of the investment's objectives. Also, the reports did not always provide an analysis of why actual results differed from planned results. For example, a 1997 report compared projected potato production to planned production but did not explain why projected production differed from planned production.

SaskWater did not set performance indicators or targets for the financial and economic development objectives of its investment in the potato industry. This combined with the fact that some of the investment objectives were not clear has made it difficult for SaskWater to evaluate the extent of success it has had in achieving the approved objectives.

We found that since 1998 the quality of the periodic reports has improved. Specifically, the reports usually encompass all of the investment's objectives and provide better explanations for differences between planned and actual results. We also note that SaskWater intends to work with CIC to improve how it reports its performance.

Reporting on the investment

We expected SaskWater to provide its governing bodies (i.e., its Board, CIC, Cabinet, and the Legislative Assembly) with periodic reports that explain the differences between actual and planned results for its investment in the potato industry. The level of detail must be appropriate for each governing body. For example, CIC and Cabinet may not require as much detailed information about investment status and risk evaluations as does SaskWater's Board. The Legislative Assembly should annually receive a report on the extent to which SaskWater has achieved its planned results.

We found management provided the Board with some reports that management used. As noted earlier, the reports used by management before 1999 did not include all information needed to evaluate the potato industry investment (e.g., risk analysis, variance analysis). As a result, the Board did not receive adequate information until 1999.

Government policy did not require SaskWater to provide periodic status reports to CIC or Cabinet. As a result, SaskWater did not provide these reports to CIC or Cabinet on a regular basis. SaskWater provided CIC with some performance information when SaskWater sought approval for decisions not previously set out in the approved business plans. However, this information was not sufficient to allow CIC to evaluate fully the progress on the investment.

Annual Report needs improvement

SaskWater's 1999 Annual Report does not include a comparison of plans to actual results.

To assess performance of public sector agencies, the Assembly and the public need adequate information about the agency's plans and the agency's achievement of those plans. Public sector agencies should provide their vision, long-term goals, specific objectives, key performance targets, and main strategies for achieving these plans. They should also report the extent to which they have achieved those plans.

We reviewed SaskWater's Annual Report for the year ended December 31, 1999. The Annual Report does not compare SaskWater's plans and actual results for the year. As a result, the Assembly and the public cannot use the Annual Report to fully assess SaskWater's performance.

We discuss this matter more fully in Chapter 2 (Crown Investments Corporation of Saskatchewan) of this Report.

3. **We recommend SaskWater improve its public accountability by clearly describing in its annual reports the extent to which it has achieved its plans.**

In its 1999 Annual Report, SaskWater indicates it plans to improve how it reports on its performance in future annual reports.

List of persons who received public money

SaskWater did not give the Assembly a list of persons who received public money in 1999.

The Standing Committee on Crown Corporations (Crown Corporations Committee) requests and receives some information about spending by SaskWater, such as expenses for out-of-province travel and payments to board members, senior management, and consultants.

In our 1999 Spring Report, we recommend that CIC and its subsidiaries (which include SaskWater) should:

- publish a list of persons who received money from them and the amounts the persons received following the Assembly's current general disclosure standard; or

- discuss alternative public disclosure requirements that will achieve the Member's of the Legislative Assembly objectives for requiring

this information with The Standing Committee on Public Accounts (PAC) or, if the Assembly so directs, with the Crown Corporations Committee.

In its Third Report (tabled in April 1999), PAC recommended that the Assembly refer this issue to the Crown Corporations Committee for review and consideration, as it relates to CIC and its subsidiaries. In its response to PAC's Third Report, the Government agrees this issue should be referred to the Crown Corporations Committee. The Assembly concurred with PAC's Third Report, but has not yet ordered referral of this matter to the Crown Corporations Committee.

We discuss this matter more fully in Chapter 15 of our 1999 Fall Report – Volume 2.

4. **We recommend SaskWater should:**

- **publish a list of persons who received money from it and the amounts the persons received following the Standing Committee on Public Accounts' current minimum disclosure amounts; or**

- **seek direction from PAC or, if the Assembly so directs, from the Crown Corporations Committee.**

Pensions

8

Executive summary **108**

Glossary **109**

Purpose of Chapter **111**

Government pension plans **111**

Status of systems and practices used to manage pension risks **113**

Summary of audit conclusions 113

Systems and practices used by pension plans to maximize investment earnings **114**

Assurance standards 116

Objective of our study 116

Criteria 117

Our conclusions 118

Our findings 119

Manager(s) selected should meet the objectives 119

Documented process for evaluating potential investment managers 120

Progress on past recommendations **121**

Defined contribution pension plans allocate earnings consistently, except for the Saskatchewan Pension Plan 123

The Government should use consistent estimates 127

Pension task force not established 128

Cash required for unfunded liabilities 129

Statements of investment objectives should clearly set out the plans' assessment of acceptable risk 131

Statements should clearly set out investment objectives 132

Verification of investment manager performance reports and compliance reports 133

Contracted asset consultants 133

Reporting of investment performance 134

Future plans **135**

Executive summary

In this Chapter, we discuss the systems and practices used by pension plans to maximize investment earnings within acceptable risk levels, and report progress on our past recommendations. Also, in this Chapter we report on our study on how well six pension plans establish and clearly state selection criteria for investment managers. These pension plans had adequate systems and practices to set criteria for the selection of investment managers except the plans needed to document their systems and practices for selecting investment managers.

We are pleased with the progress pension plans have made to address our past recommendations. However, certain plans have not fully addressed our recommendations relating to the allocation of investment earnings to their members and identifying the risk level acceptable to their plan members and the Government.

In this Chapter, we note the Government's pension plans have serious future cash flow requirements. For pension plans with unfunded liabilities, the Government will need to obtain approximately $10 billion from 2000 to 2025 to pay for the pensions promised. The Government must plan for the cash requirements to pay the pensions promised. We note, in 1998-1999 the Government required over $150 million to pay for the promised pensions. The cash required will increase to over $200 million per year by 2003 and to over $400 million per year by 2011. The Government needs to make the Assembly aware of its plan to meet these future cash requirements.

We also continue to recommend that the Government should establish a task force to study issues related to pension plans. These issues include how best to meet the serious cash requirements of certain pension plans; what should happen to the surplus accumulated in some pension plans; and how best to ensure that all pension plans use consistent estimates to calculate the Government's pension liabilities.

Glossary

Actuary – a professional who prepares periodic asset and pension liability valuations for accounting purposes.

Actuarial valuation – an assessment of the financial status of a pension plan. It consists of the valuation of assets held by the fund and the calculation of the actuarial present value of benefits to be paid under the terms of the plan.

Asset consultant – a professional who provides an analytical review of the total fund, the asset classes and the investment managers' performance, relative to peers and pension plan targets. The asset consultant monitors each manager's style and risk characteristics and comments on the acceptability of performance. It advises the board of directors of the plan on overall investment policy and management that best achieve the objectives.

Closed pension plan – a pension plan that does not accept new members into the plan.

Custodian – an organization such as a bank or a trust company that has been contracted to monitor investment transactions and provide record-keeping services for the pension plan. This organization has custody of the assets of the plan and is responsible for executing investment transactions and collecting income.

Defined benefit pension plan – a pension plan that specifies the benefits to be received by members of the plan after retirement or the method of determining those benefits.

Defined contribution pension plan – a pension plan in which the members' contributions are fixed, usually as a percentage of compensation, and allocated to specific individuals. The pension benefit for each employee is the amount that can be provided at retirement based on the accumulated contributions made on that individual's behalf and investment earnings on those contributions.

Investment manager – an individual or organization that manages a portfolio of investments, which includes developing and implementing an investment strategy that will achieve the objectives of the pension plan.

Model portfolio – investment manager's selection of a subset of all possible investments which are monitored and recommended to clients (i.e., investment manager invests on clients' behalf in only 40 companies listed in the TSE 300).

Open pension plan – a pension plan that accepts new members into the plan.

Pension liability – the present value of pension benefits earned as determined by an actuary using the pension plans' best estimates about future events and an appropriate actuarial method as recommended by The Canadian Institute of Chartered Accountants for accounting purposes.

Statement of investment objectives – a document that describes the investment policy to be followed and lays out key aspects of the pension plan in an orderly manner. This document describes a number of areas including the type of pension plan, nature of plan liabilities, the accepted risk, the degree of diversification of the portfolio, the classes and types of permitted investments, investment objectives and expected rates of return, valuation of investments, conflict of interest, related parties, retention/ delegation of voting rights, etc.

Target rate of return – the planned rate of return the pension plan has established. This rate is typically determined in reference to established indexes. For example, a target rate of return could be 40% of the Toronto Stock Exchange 300 Index and 60% of the Scotia Capital Markets Universe Bond Index.

Unfunded liabilities – the amount by which the pension liability exceeds the assets of the pension plan.

Purpose of Chapter

The Government's pension plans are significant to the Legislative Assembly, members of the pension plans and the public. Through the plans, the Government manages a significant amount of assets and pension liabilities. Note 6 to the Government's summary financial statements for the year ended March 31, 1999 shows pension liability of $3.7 billion for government service organizations and a pension surplus of $165 million for government enterprises.

In this Chapter, we discuss:

- the status of systems and practices to manage pension risks;
- the systems and practices used by pension plans to maximize investment earnings within acceptable risk levels;
- progress on our past recommendations; and
- our future plans.

Government pension plans

This Chapter reports on 16 of the Government's pension plans. There are ten defined benefit plans and six defined contribution plans.

In **defined benefit plans**, the Government promises to pay each member a pension based on the member's salary and years of service. For the Municipal Employees' Pension Plan, the municipal employers and school boards promise to pay the pensions. In 1978 (1980 for the Teachers' Superannuation Plan) the Government reduced its risk, that its pension costs will be greater than expected, by closing its defined benefit pension plans to new members, except for the Judges of the Provincial Court Superannuation Plan and the Municipal Employees' Pension Plan. Since 1978 (1980 for the Teachers' Superannuation Plan) new Government employees become members of defined contribution plans.

The ten defined benefit plans included in this Chapter are:

- Judges of the Provincial Court Superannuation Plan;

- Liquor Board Superannuation Plan;
- Members of the Legislative Assembly Superannuation Plan;
- Municipal Employees' Pension Plan;
- Public Service Superannuation Plan;
- Power Corporation Superannuation Plan;
- Saskatchewan Government Insurance Superannuation Plan;
- Saskatchewan Telecommunications Pension Plan;
- Teachers' Superannuation Plan; and
- Workers' Compensation Board Superannuation Plan.

In **defined contribution plans**, the Government and the plan member each pay a fixed percentage of the member's salary into a fund (the Government no longer contributes for the Saskatchewan Pension Plan and members do not contribute for Saskatchewan Research Council Employees' Pension Plan). The member's pension is based on the accumulated contributions (i.e., total contributions made by the member and the Government over the member's career) and the investment earnings.

The six defined contribution plans included in this Chapter are:

- Capital Pension Plan Inc. (this plan includes employees of the Saskatchewan Gaming Corporation, Saskatchewan Government Insurance, Saskatchewan Transportation Company, Saskatchewan Water Corporation and certain other agencies);
- Members of the Legislative Assembly Superannuation Plan;
- Public Employees Pension Plan (this plan includes employees hired by the Public Service Commission, SaskTel and SaskPower);
- Saskatchewan Pension Plan;

- Saskatchewan Research Council Employees' Pension Plan; and
- Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission.

Status of systems and practices used to manage pension risks

In Chapter 5 of our 1996 Spring Report, we outline the risks and the resulting systems and practices that the Government needs to manage pension plans. We expect pension plans will:

- comply with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing;
- keep accurate and complete records to meet significant reporting needs;
- safeguard their investments;
- manage cash flows;
- maximize investment earnings within levels of acceptable investment risk; and
- submit timely reports to the Legislative Assembly, plan members, and Government agencies. These reports should permit the evaluation and comparison of planned performance to actual performance (e.g., targeted investment rates of return and actual returns).

Summary of audit conclusions

Based on our audits of pension plans with year ends on or before March 31, 1999 , we conclude, all pension plans:

- **complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the Members of the Legislative Assembly Superannuation**

defined benefit Plan. The Department of Finance is not paying allowances to surviving spouses as required by *The Members of the Legislative Assembly Superannuation Act, 1979* (see Chapter 8 in our 1999 Fall Report – Volume 2).

- **kept accurate and complete records to meet reporting needs, except for the Municipal Employees' Pension Plan and Teachers' Superannuation Plan. For the Municipal Employees' Pension Plan the Department of Finance has not prepared a complete accounting policies and procedures manual for the Plan (see Chapter 8 in our 1999 Fall Report – Volume 2). For the Teachers' Superannuation Plan, the Teachers' Superannuation Commission needs to establish rules and procedures to independently verify information it receives from school boards (see Chapter 14 of this Report).**

- **adequately safeguarded their investments;**

- **managed their cash flows; and**

- **submitted timely reports, but some pension plans need to include an evaluation and comparison of planned performance to actual performance in their audited financial statements (see 'Reporting of investment performance' later in this Chapter).**

Systems and practices used by pension plans to maximize investment earnings

In 1997, we decided to study the systems and practices used by pension plans to maximize their investment earnings within acceptable risk levels.

Pension plans need to maximize their investment earnings within acceptable levels of risk. The systems and practices needed to accomplish this include:

- assessing and establishing the risk levels that are acceptable to plan members and the Government;

- establishing investment objectives (including the target rates of return, and the quality and quantity investment guidelines) using established risk levels;

- monitoring and reporting on investment performance in meeting objectives including whether investments comply with the law; and

- setting criteria for the selection of investment managers.

We decided to break this study into several parts. We did not include the Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission because it was in the process of being formed when we started the study. We also did not include the defined benefit plan Members of the Legislative Assembly Superannuation Plan because it has no assets and therefore has no need for an investment manager.

We report the results of the first part of our study in our 1998 Spring Report. We conclude:

- the pension plans' *statements of investment objectives* (statements) did not clearly set out and state the risk level acceptable to their plan members and the Government; and

- the pension plans' statements did state their investment objectives. However, these objectives were not based on stated risk levels acceptable to plan members and the Government.

We report the results of the second part of our study in our 1999 Spring Report. We conclude:

- all pension plans need to improve their regular monitoring of investment managers' performance against investment objectives; and

- all pension plans periodically evaluated their investment managers' performance to determine if the manager should be retained or whether a new manager should be selected.

In this Chapter, we describe the objective of the third part of our study, our work and our conclusions.

Assurance standards

We did our study in accordance with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants and obtained a moderate level of assurance. We performed the procedures we considered necessary to meet those standards. Our procedures consisted of studying relevant documents, and discussion and analysis. Our work does not constitute an audit.

Objective of our study

Pension plans must have criteria for the selection of investment managers. This is critical when an investment manager is replaced or an additional investment manager is hired.

The objective of this part of our study was to determine if Government pension plans have adequate systems and practices to set criteria for the selection of investment managers for their years ending up to December 31, 1999.

The number of investment managers used by a pension plan varies from one to six. For example, Teachers' Superannuation Plan uses one investment manager to manage its $1.8 billion (June 1999) portfolio whereas Public Employees Pension Plan uses six managers to manage its $2.1 billion (March 1999) investment portfolio.

We focused this part of our study on those pension plans that have recently hired investment managers. We therefore studied the systems and practices to set criteria for the selection of investment managers for the following plans:

- Public Employees Pension Plan;
- Municipal Employees' Pension Plan;
- Saskatchewan Telecommunications Pension Plan;
- Power Corporation Superannuation Plan;
- Capital Pension Plan Inc.; and
- Saskatchewan Pension Plan.

We compared documentation related to the selection of investment managers supplied by these pension plans to the criteria described below. Where necessary, we also interviewed key personnel involved in the administration of the pension plans to further our understanding of the systems and practices for selecting investment managers.

Criteria

Auditors need criteria to evaluate the matters they study. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of systems and practices. To complete our study, we developed criteria. We provided the criteria to the pension plan administrators for their comments. We reviewed the comments we received, made changes to our criteria and obtained pension plan administrators' agreement.

We used the following criteria for the pension plans we included in this part of our study. Pension plans should establish and clearly state selection criteria for investment managers including:

- the type of manager(s) selected should meet the objectives set out in the plan's *statement of investment objectives* (statement).

- a documented process for evaluating potential investment managers.

Our detailed criteria are:

- how potential managers are identified;
- whether consultants should be hired to assist in the process of identifying potential managers;
- the process for selecting a short list to interview and further evaluate;
- a system of ranking potential managers to facilitate selection of the most appropriate manager(s); and
- the selection/interview criteria including:
  - the manager's organization including ownership stability, senior staff ownership in the firm, management of assets of similar pension plans, and a business plan consistent with managing pension assets of the size of the plan;

- the manager's personnel including necessary staff expertise in the investment industry and with managing similar sized pension assets, and the reasonableness of the turnover rate of senior staff;
- the investment style of the manager (e.g., value-orientated manager's look to buy less expensive stock versus growth-orientated managers look for growth companies), whether the style is clearly defined and consistently applied, the appropriateness of the manager's style in helping the plan to achieve its objectives, and the complementary nature of the manager's style to the plan's existing style and investment objectives;
- the manager's client service including the ability to provide the needed reports and to answer questions promptly, and the suitability of the manager's geographic location;
- the manager's past performance including comparison with the performance of similar managers and the plan's objectives, the manager's performance in periods when the manager's style was in favour and when it was not, the manager's ability to consistently add value to a portfolio, and whether the manager's past performance volatility was acceptable for the plan's objectives and level of risk tolerance;
- the cost of changing managers including the cost of searching for managers, cost of changing managers, the hidden costs (e.g., costs due to a portfolio staying in cash during a change in managers or costs due to opportunities lost in rising markets) and minimizing the cost of changing or adding managers; and
- the competitiveness of the manager's fee structure.

Our conclusions

Based on our study, we conclude that all six pension plans have adequate systems and practices to set criteria for the selection of investment managers. However, the pension plans did not document these systems and practices for selecting investment managers.

As stated earlier, our work does not constitute an audit. In conducting our study nothing came to our attention that would cause us to change our conclusion.

The recommendation we make below is intended to help the pension plans continue to meet their objectives of maximizing investment earnings within acceptable risk levels.

1. **We recommend that all pension plans should document their process for selecting investment managers.**

We appreciated the co-operation of the pension plan administrators.

The following is a discussion of our findings for the criteria.

Our findings

Manager(s) selected should meet the objectives

The type of manager(s) selected should meet the objectives set out in the pension plan's *statement of investment objectives* (statement). During the selection process, the statement remained open to change. It remained open because the selection of other investment managers usually affected the risk and reward parameters defined in the statement. At the end of the selection process, the statement was modified to include relevant changes. These changes involved refining the definition of risk, modifying the target rate of return, adding a section(s) specific to the new manager(s), setting new overall plan targets, and including investment compliance reporting requirements specific to each investment manager.

The selection of new or additional investment managers started with the pension plan's board of directors (board) discussion with the asset consultant. The asset consultant acted in an advisory role to the board. The board discussed the investment management structure and the opportunity to increase the efficiency of the plan's portfolio and whether other investment managers should be hired. The asset consultant prepared several informational documents for the board and made several presentations to the board.

There were several reasons why a pension plan wanted to expand beyond one manager. The reasons involved the opportunity to increase the efficiency of the pension plan's portfolio. Efficiency means the potential to increase returns and/or decrease risk. However, this is counterbalanced with increasing costs.

For the six pension plans reviewed, the type of manager(s) selected met the objectives set out in the plans' *statement of investment objectives.*

Documented process for evaluating potential investment managers

The six pension plans reviewed all followed a similar process in evaluating potential investment managers. In all cases, an asset consultant was used to assist in identifying potential managers. Asset consultants were valuable in this process because they maintain an investment manager database. The consultants selected managers from this database given the criteria that the pension plan's board outlined.

In setting the criteria, all six boards considered the investment style of the prospective investment manager including value versus growth style, active versus passive management, pooled versus segregated fund management, and balanced versus speciality management or a combination thereof. The boards also considered the stability of the manager's organization, the experience of the investment manager, the manager's client service, the manager's past performance, the competitiveness of the manager's fee structure, and the cost of changing managers.

Once the board, in consultation with the asset consultant, had developed the investment manager selection criteria, the board instructed the asset consultant to select several candidates for the short list. This short list generally contained six to eight candidates. The asset consultant used an existing database for this selection. The asset consultant prepared a report discussing agreed upon selection criteria for each of the prospective investment managers. The asset consultant presented the report to the board. The report and the presentation provided an opportunity for debate and discussion. From this discussion, the prospective investment managers were informally ranked and the board agreed to a short list of candidates to interview. This short list generally contained three to four candidates. The short-listed investment managers were considered the best investment managers in the field given the selection criteria.

The asset consultant arranged interviews for the short-listed investment managers. Investment managers prepared reports to support their presentation to the boards. The reports were distributed to boards prior to the interviews.

Each member of the board outlined their top choice after discussing the various attributes of the selected managers. At this stage, the final

selection of the investment manager becomes somewhat subjective. Ultimately, the boards selected the investment managers who fit the criteria and who the boards thought they could best work with. The board was not necessarily obligated to hire an investment manager from the short list.

The hired investment manager had a model portfolio that would be followed. In some cases, the new investment manager's model portfolio would not include all of the assets currently held as pension plan investments. The board instructed the new manager to dispose of these investments in an orderly manner, generally over a three-month period. An orderly disposal of such investments was required to avoid a negative effect on the market value of the investments that needed to be disposed.

After hiring the new investment manager, the pension plans revised their investment objectives including how investment performance would be measured. Generally, pension plans began to measure the investment manager's performance after the completion of the transition period.

While all of the pension plans reviewed maintained documentation generated from the selection of investment managers, none of them had documented the process of investment manager selection. This documentation of the process is important so that a board can follow and improve the selection process in the future. Documentation of the process also allows boards to incorporate lessons learned into the process of investment manager selection.

Progress on past recommendations

In our 1996 Spring Report, we make four recommendations regarding the Government's pension plans. We recommend:

- The Government should study the investment earnings allocation policies of its defined contribution pension plans to decide whether it is appropriate to have a consistent policy. If consistent policies are not considered appropriate, the Government should explain why.

- The Government should use consistent estimates for cost-of-living adjustment (COLA) increases and inflation to calculate the pension liability for its defined benefit pension plans.

- The Government's defined benefit pension plans' annual reports should show future cash flow information.

- The Government should consider establishing a pension commission to study the many issues related to its pension plans.

In May 1996, the Standing Committee on Public Accounts (PAC) concurred with our recommendations.

In our 1998 Spring Report, we followed-up on our recommendations from the 1996 Spring Report and make the following recommendations:

- The Government should ensure the Saskatchewan Pension Plan's investment earnings allocation policy is consistent with other defined contribution pension plans.

- The Government should ensure the Saskatchewan Telecommunications Pension Plan uses an estimate for cost of living allowance increases which is consistent with other defined benefit pension plans.

- The Government's defined benefit pension plans with unfunded liabilities should show future cash flow information in their financial statements.

- The Government should establish a task force to study the many issues related to pension plans.

In our 1999 Spring Report, we again followed-up on our recommendations from previous Reports and make the following recommendations:

- The Saskatchewan Pension Plan's *statement of investment objectives* should clearly set out and state the risk level acceptable to its plan members and the Government. The pension plan's investment objectives should be based on the risk level acceptable to plan members and the Government.

- The Government should ensure the Saskatchewan Pension Plan allocates all investment earnings to its members.

- The Government should calculate its pension liability for each of its defined benefit plans using a consistent estimate for inflation.

- The Government should establish a task force to study the many issues related to pension plans.

In 2000, we followed-up on our past recommendations to see how the Government and its pension plans are moving forward in addressing our recommendations.

The following section describes how the Government and its pension plans are progressing in addressing our past recommendations. Our follow-up procedures included examining the plans' financial statements for their years ended March 31, 1999, June 30, 1999 and December 31, 1999 and discussing progress with pension plan administrators. This follow-up work is not an audit.

Defined contribution pension plans allocate earnings consistently, except for the Saskatchewan Pension Plan

The allocation of investment earnings to members directly affects plan members' final pensions. When plan members retire or leave, they receive their contributions, the Government's contributions (the Government no longer contributes to the Saskatchewan Pension Plan) and the investment earnings allocated to them. Typically, plan members use this money to buy a retirement annuity.

Each year, plan members receive allocations of investment earnings based on their contributions and the investment earnings of the fund. When they retire or leave, plan members receive their accumulated allocation of investment earnings.

In the past, the Government's defined contribution pension plans followed different policies for allocating investment earnings to members. Now all defined contribution plans allocate all investment earnings to members, except for the Saskatchewan Pension Plan (Plan). Currently, the Plan allocates interest and dividends, but does not allocate all realized and unrealized gains and losses. At December 31, 1999, the Plan had not allocated $6.0 million (1998 - $6.3 million) to plan members.

Management of the Saskatchewan Pension Plan (Plan) thinks it is appropriate to minimize market fluctuations to its members by smoothing realized and unrealized gains and losses over a four-year period. Management thinks this provides members with the possibility of a higher rate of return while minimizing the impact of market fluctuations. Management of the Plan also told us that plan members, when compared to other Government pension plans' members, are older and more risk averse. Management further told us that for members of the Plan there is no employee-employer relationship between the member and the Government and no fixed mandatory contribution rate. Members join the plan voluntarily and contribute voluntarily.

Also, management of the Plan thinks the Plan is not similar to the financial industry. Management told us that the Plan has no sales force, only one office, provides no financial planning expertise, does not have access to information about a member's entire investment portfolio and that the Plan is not competing for a member's entire investment portfolio, and it charges no commissions. All these factors, the management says, makes it different than the financial industry.

However, the Plan publicly advertises for and actively seeks new members. In doing so, the Plan is in direct competition with the financial industry. The financial industry, which markets products like mutual funds, including balanced funds similar to the Plan, is not allowed to smooth allocations by deferring investment earnings. In the financial industry, individual investors pick the type of product based on their risk profile.

Several types of investors can be identified based on their risk profiles. Investors who are approaching retirement may have less tolerance to risk and choose products with lower volatility such as a money market fund. Other investors, who will be investing for a long time, and with investing experience, may have a high degree of risk tolerance and choose products that are substantially in the form of equities. There are also those investors who may, because of their individual characteristics, accept a moderate amount of risk and therefore tend to choose an investment product that has a number of asset classes including cash, bonds and equities.

The Saskatchewan Pension Plan's *statement of investment objectives* (as at November 1999) states, "overall, the risk tolerance of the Plan can be considered moderate, balancing the need for capital growth for younger members with the desire for capital preservation for older members." We

think this statement means there are members that have different characteristics: some members will invest for a long time and may not retire for several years; while other members will invest for a short time and may retire in the next few years. These different characteristics suggest that these two broad groups of dissimilar members have different risk profiles.

The statement indicates that younger members who will be investing for a long time accept a moderate degree of risk. Therefore, a balanced fund type of product is a suitable investment for them. For members closer to retirement, the statement indicates capital preservation may be more important than the possibility of a higher rate of return. Therefore, a product with much lower volatility than that of equities or even that of a balanced fund is more appropriate. Such a product would be a bond fund or guaranteed investment certificate (GIC).

The Plan's management told us that its current policy of not allocating all earnings to members compensates for setting investment objectives using a risk level greater than what is acceptable to some plan members. The Plan treats all members the same, even though there is at least two distinct types of members having different characteristics and different tolerances to risk. If the *statement of investment objectives* clearly defines the risk, there is no need to defer the allocation of investment earnings to the members.

We note several other Government plans have pension populations with differing tolerances to risk. The Public Employees Pension Plan (PEPP) recognizes that its members have different tolerances to risk depending on member's characteristics. PEPP chose to deal with this by having two types of investment products that members can choose from depending on their tolerance to risk. Members with moderate risk tolerance can choose the Balanced Fund. Members nearer to retirement can choose the Pre-Retirement Fund. The Pre-Retirement Fund holds low-risk products such as bonds and GICs and is intended for those members who wish to protect their capital. For both the Balanced Fund and the Pre-Retirement Fund, PEPP allocates all investment earnings to members. PEPP does not need to defer any member's allocation because membership risk has been appropriately identified.

Some may argue that the Saskatchewan Pension Plan does not have sufficient assets under management to manage two types of funds as is done in PEPP. We note the Pension Plan for the Eligible Employees at the

University of Saskatchewan, 1974 (U of S Plan) is smaller than the Saskatchewan Pension Plan. The U of S Plan also recognizes that its members have different tolerances to risk. The U of S Plan has therefore created a balanced fund and a pre-retirement fund to allow its members to choose according to their risk tolerance. This pension plan does not defer investment earnings.

Management of the Plan told us it thinks the cost of establishing a pre-retirement fund will outweigh the benefits. The Plan's management notes that a large defined contribution plan in Canada has one balanced fund for its members and does not allocate all realized and unrealized gains and losses. We note that for this pension plan there is an employee-employer relationship between the members and the plan sponsor. We also note that all other large defined contribution plans that we looked at in the private and public sector allocate all realized and unrealized gains and losses.

The Saskatchewan Pension Plan has not completed any study to support its position that the cost of establishing more than one fund would outweigh the benefits.

In October 1998, PAC considered our recommendation that the Government should ensure Saskatchewan Pension Plan's investment earnings allocation policy is consistent with other Government defined contribution pension plans. The Committee disagreed with our recommendation.

In our 1998 Spring Report and 1999 Spring Report, we conclude the Saskatchewan Pension Plan's *statement of investment objectives* did not clearly set out and state the risk level acceptable to its plan members and the Government.

We continue to think the *statement of investment objectives* of the Saskatchewan Pension Plan should clearly set out and state the risk level that is acceptable to the plan members and the Government. The Plan should then determine the investment objectives based on the assessed risk levels. Each member of the Plan places trust in the Plan to appropriately invest their contributions and faithfully return all of the contributions and investment income earned. Currently, the Plan has not allocated 5% of Plan assets to members. For a member of the Plan retiring on January 1, 2000 with $20,000 in the member's account, would leave behind $1,000.

2. **We continue to recommend that the Saskatchewan Pension Plan's *statement of investment objectives* should clearly set out and state the risk level acceptable to its plan members and the Government. The pension plan's investment objectives should be based on the risk level acceptable to plan members and the Government.**

3. **We continue to recommend that the Government should ensure the Saskatchewan Pension Plan allocates all investment earnings to its members.**

The Government should use consistent estimates

The Government's defined benefit pension plans should use consistent estimates and assumptions to calculate their pension liabilities.

The inflation rate used to calculate pension liabilities for defined benefit pension plans should be the same for all of the Government's pension plans because they all operate in the same economy.

Where the estimates and assumptions used in actuarial valuations are not consistent for all pension plans, boards of directors of the plans, other Government agencies, the Legislative Assembly, members of the plan and the public lack comparable information. They need comparable information to understand and assess the performances of the Government's pension plans.

Pension plans need actuarial valuations, once in three years, to reflect changes in the membership, the plan document and/or legislation, and the reasonability of assumptions used to determine the pension liability. However, the pension plans may need to have actuarial valuations done in between the three-year period if pension plan documents and/or legislation is significantly changed.

In our past Reports, we recommended that the Government should use consistent estimates to calculate its pension liability. Some pension plans are still using inconsistent estimates to calculate their pension liability.

The Workers' Compensation Board Superannuation Plan and Power Corporation Superannuation Plan used 4% as their long-term inflation estimate while the other Government plans used 3.25% for valuations completed in 1999-2000. Based on pension plans' sensitivity analysis

prepared by actuaries, this difference of 0.75% in the inflation rate assumption has a significant impact on the pension liability. If the inflation assumption decreased by 0.75% for the Government's pension plans, the Government's pension liabilities at March 31, 1999 would increase by about $200 million.

The Government should monitor all defined benefit pension plans to ensure they all use consistent estimates to calculate their pension liabilities. A pension task force (see discussion below) could ensure that all Government pension plans use consistent estimates and assumptions to calculate their pension liabilities.

4. **We continue to recommend that the Government calculate its pension liability for each of its defined benefit pension plans using consistent estimates.**

Pension task force not established

The Government has not yet established a pension task force. We recommend in our 1996 Spring Report and 1999 Spring Report that the Government should establish a pension task force to study the many significant issues faced by its pension plans. A task force should examine:

- serious future cash requirements the Government's pension plans and how to address those requirements;
- what should be done with the surplus accumulated in some pension plans;
- whether members of all plans should make the same contributions and receive the same benefits;
- whether current administrative responsibilities should be combined under fewer organizations to help reduce administrative costs and/or improve investment earnings;
- whether all pension plans use consistent estimates and assumptions to calculate their pension liabilities; and
- why some plans have their own laws that govern them while other plans establish a plan document under *The Pension Benefits Act, 1992* that governs their plan.

All defined benefit plans are closed with the exception of the Municipal Employees' Pension Plan and the Judges of the Provincial Court Superannuation Plan. New employees became members of the Public Employees Pension Plan or the Capital Pension Plan Inc. Currently, several boards administer the closed defined benefit plans. These defined benefit plans provide similar benefits, collect similar contributions at similar rates and have similar administrative systems.

In May 1996, PAC recommended: "The Government should establish a pension commission to study the many issues related to its pension plans."

In 1998, PAC reconsidered our recommendation and said:

> ... the Public Accounts Committee does not concur with the auditor's recommendation, but requests the Department of Finance to return to the Committee at a future date with a report as to how the Government plans to address its pension obligations.

We continue to think a pension task force would provide an opportunity for all those involved to provide their opinions. It could also facilitate consensus on pension issues and provide direction to the Government on its pension plans.

5. **We continue to recommend that the Government should establish a task force to study the many issues related to pension plans.**

Cash required for unfunded liabilities

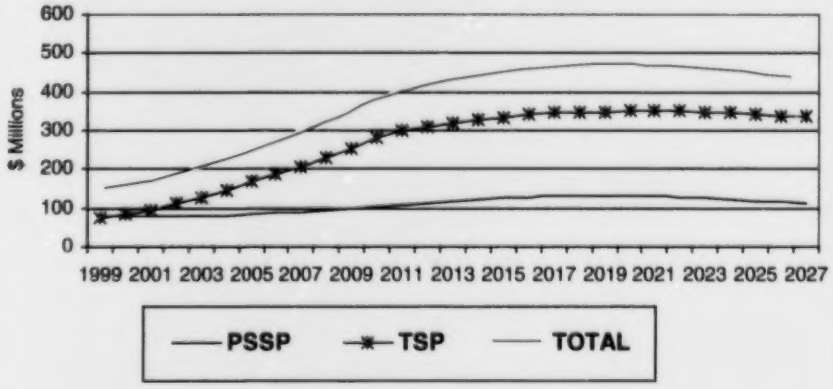
A number of the pension plans discussed in this Chapter have unfunded liabilities. These pension plans include Teachers' Superannuation Plan, Public Service Superannuation Plan, Liquor Board Superannuation Plan, Members of the Legislative Assembly Superannuation Plan, and Judges of the Provincial Court Superannuation Plan.

The Teachers' Superannuation Plan (TSP) and the Public Service Superannuation Plan (PSSP) have significant future cash requirements (see Exhibit 1). Cash required represents the difference between cash required to pay promised pensions and the cash received from members' contributions, together with investment income and the sale of

investments. The other three plans together have an average cash requirement of about $10 million annually over the next 25 years.

The Public Service Superannuation Plan has no assets set aside. The Teachers' Superannuation Plan has $1.8 billion in assets set aside at June 30, 1999. The cash requirements of the Teachers' Superannuation Plan assumes a steady sale of investments to help pay the pensions to the year 2030. In the year 2030, the Teachers' Superannuation Plan will have no money left with which to provide pensions to retired teachers.

Exhibit 1 - Cash required over the next 27 years



PSSP - Public Service Superannuation Plan
TSP - Teachers' Superannuation Plan

Cash flow information is taken from the most recent actuarial valuation reports available for the plans as at March and June 1999. PSSP and TSP have cash flow information for the next 27 years and 79 years respectively. Cash required amounts have not been adjusted for the impact of inflation. Cash required amounts would be lower if adjusted for the impact of inflation.

Exhibit 1 shows the Government would require about $200 million each year by year 2003 to pay the pensions promised under TSP and PSSP. The Exhibit also shows that the cash required in each year to pay the promised pensions will grow to $400 million by the year 2011 and about $500 million by the year 2020.

According to the audited financial statements of TSP and PSSP, the Government required $152 million in 1998-1999 to pay for promised pensions. We note the Government spent $300 million on agriculture for the year ended March 31, 1999 and $700 million on social services and assistance for the same year.

In total for the period from 2000 to 2025, the Government will need to obtain approximately $10 billion to pay the pensions promised under these plans. This is a serious future cash requirement. The Government needs to make the Assembly aware of its plan to meet these future cash requirements for the pensions promised.

In October 1998, PAC recommended that "the Department of Finance return to the Standing Committee on Public Accounts during the 1st Session of the Twenty-fourth Legislature with a report as to how the government plans to address its pension obligations." In February 2000, the Government responded to PAC's recommendation. It said:

> The Department of Finance will return to the Standing Committee on Public Accounts to discuss issues facing the Government's pension plans.

6. **We recommend that the Department of Finance provide a report to the Standing Committee on Public Accounts showing how the Government plans to address its future cash requirements for the pensions promised.**

Statements of investment objectives should clearly set out the plans' assessment of acceptable risk

In our 1998 Spring Report, we recommend:

- Pension plans' *statements of investment objectives* should include a clear assessment of the risk level acceptable to plan members and the Government.

In October 1998, PAC concurred with our recommendation.

Pension plans' *statements of investment objectives* (statements) have generally improved. We noted the statements for the following plans still do not clearly set out the plans' assessment of acceptable risk level of their members and the Government. These plans are Saskatchewan

Pension Plan, Teachers' Superannuation Plan, Judges of the Provincial Court Superannuation Plan, Members of the Legislation Assembly Superannuation Plan, and Saskatchewan Research Council Employees' Pension Plan.

We also note that Saskatchewan Pension Plan and Teachers' Superannuation Plan provide little or no information on membership demographics in their statements. Also, the Teachers' Superannuation Plan, in its *statement of investment objectives*, provided little information on its unfunded status.

Pension plans should include this information in their *statement of investment objectives* to help understand the pension plans and their risk assessments.

We continue to recommend pension plans' *statements of investment objectives* should include a clear assessment of the risk level acceptable to plan members and the Government.

Statements should clearly set out investment objectives

In our 1998 Spring Report, we recommend:

- Pension plans' investment objectives should be based on the risk level acceptable to plan members and the Government.

In October 1998 PAC concurred with our recommendation.

Generally, we found pension plans established and clearly stated their investment objectives in their *statement of investment objectives*. However, pension plans need to continue to improve their *statement of investment objectives*.

Power Corporation Superannuation Plan (Power) needs to improve the information on the plan's asset class (e.g., short-term securities, bonds, Canadian equities, etc.) rates of return. Teachers' Superannuation Plan needs to improve guidelines on acceptable related-party transactions. Judges of the Provincial Court Superannuation Plan and Teachers' Superannuation Plan need to clearly outline cash flow requirements. Saskatchewan Research Council Employees' Pension Plan and Teachers' Superannuation Plan need to outline what terms would result in ending an investment manager's contract.

Workers' Compensation Board Superannuation Plan, Teachers' Superannuation Plan, Capital Pension Plan Inc., Power Corporation Superannuation Plan, and Saskatchewan Government Insurance Superannuation Plan need to establish policies that investment managers must follow for selecting investment dealers. Power needs to include a suggested format which investment managers must follow when reporting on compliance with the plan's investment policy.

We continue to recommend pension plans' investment objectives should be based on the risk level acceptable to plan members and the Government.

Verification of investment manager performance reports and compliance reports

In our 1999 Spring Report, we recommend:

- All pension plans verify investment manager performance reports and compliance reports.

To help pension plan administrators effectively evaluate investment performance, they need independent assurance on the accuracy of the investment manager's reports. All pension plans are now receiving independent assurance on the accuracy of the investment manager's performance reports. We also note most pension plans are working on processes for obtaining independent assurance of compliance reports from investment managers.

7. **We continue to recommend that pension plans verify investment managers' compliance reports.**

Contracted asset consultants

In our 1999 Spring Report, we recommend:

- For those pension plans that have contracted asset consultants to verify the investment managers' compliance with the law, those plans should obtain the verifications.

We note pension plans have now modified their contracts with the asset consultants. These plans are now in the process of making other arrangements to verify the investment managers' compliance with the law.

Reporting of investment performance

In our 1999 Spring Report, we recommend:

- All pension plans disclose their actual and targeted rates of return in their audited financial statements.

Pension plans should report their investment performance in their audited financial statements. All pension plans should disclose actual and targeted rates of return in their financial statements. Additional credibility is added when actual and targeted rates of return are included in the financial statements because the information is audited.

We found eleven plans report their actual and targeted rates of return in their most recent audited financial statements. These plans are:

- Judges of the Provincial Court Superannuation Plan;
- Liquor Board Superannuation Plan;
- Members of the Legislative Assembly Superannuation Plan;
- Municipal Employees' Pension Plan;
- Public Service Superannuation Plan;
- Power Corporation Superannuation Plan;
- Public Employees Pension Plan;
- Saskatchewan Government Insurance Superannuation Plan;
- Saskatchewan Telecommunications Pension Plan;
- Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission; and
- Teachers' Superannuation Plan.

The Saskatchewan Research Council Employees' Pension Plan told us it plans to disclose investment performance in its 2000 audited financial statements.

The following pension plans do not disclose their actual and targeted rates of return in their audited financial statements:

- Workers' Compensation Board Superannuation Plan;
- Capital Pension Plan Inc.; and
- Saskatchewan Pension Plan.

All pension plans should disclose their actual and target rates of return in their audited financial statements.

8. **We continue to recommend that the Workers' Compensation Board Superannuation Plan, Capital Pension Plan Inc., and Saskatchewan Pension Plan disclose their actual and targeted rates of return in their audited financial statements.**

Future plans

We plan to continue to examine the systems and practices pension plans use to manage their key risks.

In addition, in a future report, we will provide an update on the progress pension plans have made in improving their annual reports.

This page left blank intentionally.

Municipal Affairs, Culture and Housing

9

Introduction **139**

Special purpose funds and Crown agencies 139

Our audit conclusions and findings **139**

Saskatchewan Housing Corporation **141**

Tabling of financial statements 142

This page left blank intentionally.

Introduction

The Department of Municipal Affairs, Culture and Housing is responsible for supporting and maintaining a viable system of municipal government in Saskatchewan.

The Department helps enable communities to provide local governance, public protection, social housing, and access to sport, recreation, culture and information. The Department also works in partnership with communities by providing financial support, technical support, and by developing legislation, regulations and other policies to meet the changing needs of Saskatchewan people.

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies:

	Year End
Associated Entities Fund	March 31
First Nations Fund	March 31
Municipal Potash Tax Sharing Administration Board	December 31
Northern Revenue Sharing Trust Account	December 31
Saskatchewan Archives Board	March 31
Saskatchewan Arts Board	March 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Housing Corporation	December 31
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation	March 31
Sask911 Account	March 31
Western Development Museum	March 31

Our audit conclusions and findings

We report our audit conclusions and findings in our 1999 Fall Report – Volume 2 for the Department and the following special purpose funds and Crown agencies for their years ended March 31, 1999:

Associated Entities Fund
Saskatchewan Archives Board
Saskatchewan Heritage Foundation

Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation
Western Development Museum

In our 1999 Fall Report – Volume 2, we state that we had not completed our audit of the following special purpose funds and Crown agencies for the year ended March 31, 1999:

Saskatchewan Arts Board
First Nations Fund

We have now completed our audit of the Saskatchewan Arts Board.

The First Nations Fund (Fund) was established in 1997 under *The Saskatchewan Gaming Corporation Act*. The Department paid the First Nations Fund a total of $22.2 million for the years 1997, 1998 and 1999. We have reported several times to the Legislative Assembly that the Fund's Trustees have prevented us from carrying out our duties to the Assembly. The Trustees of the First Nations Fund continue to prevent us from carrying out our duties to the Assembly. As a result, we cannot assure the Assembly that the Fund's financial statements are reliable. Also, we cannot assure the Assembly that the Trustees of the First Nations Fund have adequate rules and procedures to safeguard and control the money given to the Fund. Nor can we assure the Assembly that the Trustees of the Fund have complied with the authorities governing the use of the money.

We have not completed our work on the Northern Revenue Sharing Trust Account for the year ended December 31, 1999 due to established priorities.

Accordingly, this Chapter includes our audit conclusions and findings for the following Crown agencies and special purpose fund for their years ended March 31, 1999 and December 31, 1999:

Municipal Potash Tax Sharing Administration Board
Saskatchewan Arts Board
Saskatchewan Housing Corporation
Sask911 Account

Our Office worked with KPMG, the appointed auditor for the Saskatchewan Housing Corporation and with Deloitte & Touche, the

appointed auditor, for the Sask911 Account. Our Office and the appointed auditors worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/).

In our opinion, for the Crown agencies and special purpose fund where we have completed our work:

- **the financial statements for the Crown agencies and special purpose fund are reliable;**
- **the Crown agencies and special purpose fund had adequate rules and procedures to safeguard and control their assets; and**
- **the Crown agencies and special purpose fund complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing.**

We also report another matter for the Legislative Assembly's attention relating to the Saskatchewan Housing Corporation.

Saskatchewan Housing Corporation

Saskatchewan Housing Corporation (Corporation) operates under the authority of *The Saskatchewan Housing Corporation Act (Act)*. The Corporation facilitates and promotes the availability of adequate and affordable housing for all Saskatchewan residents.

The Corporation prepares consolidated financial statements to report on its activities and the financial activities of the public housing authorities it controls.

Public housing authorities are corporations established by ministerial order under the Act. The Minister in charge has the legislative authority to appoint the members of each public housing authority. Also, the Act provides that public housing authorities must comply with policies established by the Corporation. These housing authorities provide community-based management for housing projects.

In 1999, the Corporation had revenues of $161.1 million including $64.8 million in revenue from projects managed by the public housing authorities. The Corporation had expenditures of $163.6 million including operating expenditures of $68.8 million incurred by the public housing authorities. At December 31, 1999, the Corporation held assets of $295 million.

Tabling of financial statements

The Corporation does not table the financial statements for the public housing authorities in the Legislative Assembly.

Currently, there are 281 public housing authorities. Fourteen public housing authorities are administered separately and prepare separate financial statements. The remaining public housing authorities are included, for financial administration purposes, in eight housing territories. Each territory prepares financial statements reporting the combined financial assets and liabilities and the combined results of operations for the public housing authorities included in the territory.

Public accountability is strengthened when the Government tables the financial statements of all government organizations in the Legislative Assembly. When financial statements are tabled, they are made public and reviewed by a committee of the Assembly. If the Government tables in the Legislative Assembly the financial statements of the public housing authorities and territories, the Assembly and the public can review the performance of the housing authorities and the territories.

In Chapter 4 of our 1991 Annual Report, we recommend that all government corporations table annual financial statements in the Legislative Assembly.

In March 1993, the Standing Committee on Public Accounts (PAC) concurred with our recommendation.

In Chapter 6 of our 1996 Fall Report, we recommend the Government should provide the Legislative Assembly the financial statements of all government agencies.

In February 1998, PAC reviewed these recommendations and agreed that the spirit of accountability is an important fundamental principle of

government but PAC would deal with agencies on an individual basis as raised in the Report of the Provincial Auditor.

1. **We recommend the Saskatchewan Housing Corporation provide the Legislative Assembly the financial statements of the 14 public housing authorities and the eight housing territories.**

This page left blank intentionally.

Saskatchewan Telecommunications Holding Corporation

10

Introduction 147

Understanding the Corporation's corporate structure 147

Corporation's subsidiaries 147

Saskatchewan Telecommunications Pension Plan 149

Our audit conclusions and findings 149

Preventing unauthorized access to computer systems 150

Improving public accountability 150

Additional financial information disclosed on subsidiaries 151

This page left blank intentionally.

Introduction

In this Chapter, we set out:

- An overview of and changes in the corporate ownership structure of Saskatchewan Telecommunications Holding Corporation (Corporation).

- The results of our audits of the Corporation, of two of its wholly-owned subsidiaries - Saskatchewan Telecommunications (SaskTel) and Saskatchewan Telecommunications International Inc., and of the pension plan it sponsors - Saskatchewan Telecommunications Pension Plan (Pension Plan).

Understanding the Corporation's corporate structure

The Corporation owns and controls over one dozen companies. Through these companies, it markets and supplies a range of systems and services in the areas of voice, data, Internet, text, and image products. It also directly provides cellular and paging services. In addition, its wholly-owned subsidiary, SaskTel, sponsors the Pension Plan.

Each year, the Corporation tables in the Legislative Assembly its annual report on operations. This report includes its consolidated financial statements. These statements include the financial activities of the Corporation and the companies it owns and controls (subsidiaries) and its other investments.

In 1999, the Corporation had consolidated revenue of $776 million and consolidated net income of $67.5 million (including a $39 million gain on sale of investments and a $34 million expense for restructuring and other charges). At December 31, 1999, it held consolidated assets of $1.22 billion and consolidated debt of $393 million.

Corporation's subsidiaries

At December 31, 1999, the Corporation owned and controlled many companies. Most of the companies actively operate in Saskatchewan. A few operate internationally.

In Chapter 14 of our 1999 Spring Report, we provide a brief description of the following wholly-owned active subsidiaries and their subsidiaries:

- SaskTel
- Saskatchewan Telecommunications International Inc. (STI Inc.)
  - Saskatchewan Telecommunications Consulting Inc.
  - Battleford Consulting Inc (formerly 622368 Saskatchewan Ltd.)
- 3339807 Canada Ltd., 3364381 Canada Ltd.,
  - DirectWest Publishing Partnership
- SaskTel Holding (New Zealand) Inc. (previously 593779 Saskatchewan Ltd.)
- 604408 Saskatchewan Ltd.
  - Hospitality Network of Canada (90%)
  - SaskTel Data Exchange Inc.
  - Information Queries and Analysis Partnership (IQ&A Partnership)

The Corporation acquired and set up a number of companies since we last reported. These are described in the notes to its consolidated financial statements in 1999. The Corporation acquired the remaining 40% interest in IQ & A Partnership. 3231518 Canada Ltd. (clickabid ™) became active offering on-line Internet auction services. The Corporation set up SecurTek Monitoring Solutions Inc. (formerly 591227 Saskatchewan Ltd.). This company provides residential, business and wholesale security monitoring services. In 1999, SecurTek bought 100% of two companies currently operating as SecurTek Partnership No. 1 and SecurTek Partnership No. 2.

Also, SaskTel Holding (New Zealand) Inc. sold its 35% interest in Saturn Communications Ltd. in exchange for a 2.9% interest in Austar United Communications.

Various inactive subsidiaries

At December 31, 1999, the Corporation owned 100% of several companies that had no operating activity during 1999. Note 2 to the 1999 consolidated financial statements now lists these non-operating entities.

Saskatchewan Telecommunications Pension Plan

The Saskatchewan Telecommunications Pension Plan (Pension Plan) is a defined benefit pension plan. Effective January 1, 1999, SaskTel registered its pension plan under *The Pension Benefits Act, 1992*. The Superannuation Plan is continued under the name of The Saskatchewan Telecommunications Pension Plan.

At December 31, 1999, the Superannuation Plan had assets of $772 million, and estimated actuarial liabilities of $620 million.

Our audit conclusions and findings

Our Office worked with Deloitte & Touche, the appointed auditor to carry out audits of the Corporation, SaskTel, STI Inc., and the Pension Plan. Our Office and the appointed auditor worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/). Deloitte & Touche and our Office formed the following opinions.

In our opinion for the year ended December 31, 1999:

- **the financial statements of the following entities are reliable:**
  - **SaskTel Holding Corporation,**
  - **SaskTel,**
  - **STI Inc., and**
  - **SaskTel Pension Plan.**

- **the Corporation complied with the authorities governing the activities of the entities listed above relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing activities; and**

- **the Corporation had adequate rules and procedures to safeguard and control the assets of the entities listed above except for a matter relating to access to computer systems described later in this Chapter.**

In this Chapter, we also report other matters relating to improving public accountability for the Assembly's attention.

Preventing unauthorized access to computer systems

SaskTel needs to introduce further measures to prevent unauthorized access by its technical support staff to the Corporation's financial information systems.

SaskTel has established policies and procedures to control access to its computer systems. These policies and procedures are intended to ensure that staff can only access the computer systems and data necessary for them to do their jobs. If access is not adequately controlled, the confidentially, integrity and availability of electronic information may be jeopardized.

SaskTel has implemented certain computerized financial information systems to record and report on its own financial activities and the activities of the holding corporation, STI Inc. and the defined benefit pension plan. Management of these entities uses the financial and operational information from these systems to make decisions.

SaskTel has established adequate security policies and procedures to control the access of staff to these systems and the related data, except for procedures related to its technical support staff. SaskTel needs to introduce additional procedures to ensure its technical support staff is prevented from deliberately or inadvertently accessing and altering financial data or from altering settings that govern the financial system's processing controls.

1. **We recommend that SaskTel strengthen the security of its financial data by placing limits on the amount of access provided to technical support staff to its financial information systems.**

SaskTel's management has acknowledged this recommendation and is making the appropriate changes to its access controls.

Improving public accountability

In Chapter 14 of our 1999 Spring Report, we discuss four areas where the Corporation could provide the Members of the Assembly with more or better information. We recommend:

2. **The Corporation should provide the Assembly with audited financial statements of its active subsidiaries.**

3. **For its other subsidiaries, the Corporation should provide the Assembly with either audited financial statements or with adequate financial information on the financial condition and the results of operations of each subsidiary.**

4. **The Corporation should continue to improve its annual report to clearly report on the achievement of its plans.**

5. **The Corporation and its subsidiaries should:**

   - **publish a list of persons who received money from them and the amounts the persons received following the Standing Committee on Public Account's (PAC) current minimum disclosure amounts; or**

   - **discuss different disclosure requirements with the PAC or, if the Assembly so directs, with the Standing Committee on Crown Corporations.**

In this section, we provide an update on the status of the first two recommendations. See Chapter 2 (Crown Investments Corporation of Saskatchewan) for a discussion on the third recommendation. Also, see Chapter 15 (Executive Council) of our 1999 Fall Report – Volume 2 for the status of the fourth recommendation.

Additional financial information disclosed on subsidiaries

The Corporation's 1999 audited consolidated financial statements provide more information on its subsidiaries than before.

As previously stated, the Corporation carries out a significant part of its activities through its subsidiaries. Each year, the Corporation tables in the Assembly audited financial statements for its two main subsidiaries - SaskTel and STI Inc. Their combined total revenues make up over 85% the Corporation's 1999 total revenues. In addition, the Corporation plans to table audited financial statements for DirectWest Publishing Partnership, SecurTek Monitoring Solutions Inc., 3231518 Canada Ltd. (clickabid ™) and IQ&A Partnership.

The Corporation does not table separate financial statements for Hospitality Network Canada Inc.(HNCI), SecurTek Partnership No. 1 and SecurTek Partnership No. 2. CIC has given the Corporation permission not to table the financial statements of HNCI due to commercial confidentiality reasons and of SecurTek Partnership No. 1 and SecurTek Partnership No. 2 due to these corporations not carrying on active business activities.

Disclosure of information about its subsidiaries is important to address the needs of legislators and the public. In 1993, PAC recommended all government corporations give the Assembly their financial statements. In 1999, the Standing Committee on Crown Corporations recommended legislation be amended to ensure subsidiaries of Crown corporations are subject to the same financial reporting requirements as their parent (e.g., table audited financial statements).

The notes to the Corporation's 1999 audited financial statements provide more information. They list all entities owned by the Corporation including non-operating subsidiaries. They also set out more key financial information by business segment. These business segments include SaskTel, SaskTel Mobility[1], STI Inc., DirectWest, and "Other". "Other" includes the activities of the remaining active subsidiaries.

The additional information is useful. It helps legislators and the public understand better the nature and extent of the financial activities and corporate structure of the Corporation. This in turn helps them understand the Corporation's performance. We congratulate the Corporation for providing this additional audited information.

We suggest the Corporation discuss its new financial disclosure with the Standing Committee on Public Accounts to ensure the disclosure meets the Committee's need for audited financial information on the Corporation's subsidiaries.

[1] SaskTel Mobility is an operating division of the Corporation.

Health

11

Introduction **155**

Our audit conclusions and findings **156**

Board of Governors, Uranium City Hospital **156**

Board needs to understand its responsibilities 156

Board needs to carry out its responsibilities 157

Code of conduct needed 157

Conflict-of-interest guidelines needed 157

Strategic plan and operating budget required 158

Adequate rules and procedures required 158

Bank account not controlled 159

Inventory not safeguarded 161

Claims not made 161

The Board needs to define required periodic financial information 161

Financial reports for the Board need improvement 162

External reporting requirements not met 162

Comparison of planned results to actual results needed 163

This page left blank intentionally.

Introduction

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, direct services and funding to health providers and health agencies.

For the year ended March 31, 1999, the Department received $1.8 billion from the General Revenue Fund and spent this money on its programs. The Department also raised revenue of $12 million. The Department's annual report contains information about the Department's revenues and expenses.

The Department is responsible for the following Crown agencies with March year ends:

Board of Governors, Uranium City Hospital
Health Services Utilization and Research Commission
Saskatchewan Cancer Foundation
St. Louis Alcoholism Rehabilitation Centre
Saskatchewan Health Information Network
The thirty-two district health boards

In Chapter 1A of our 1999 Fall Report – Volume 2, we report the results of the work we had completed at that time. Our 1999 Fall Report includes our audit conclusions and findings for the Department of Health, Saskatchewan Cancer Foundation, Saskatchewan Health Information Network, and the thirty-two district health boards for the year ended March 31, 1999.

In this Chapter, we report the results of our audits of the Health Services Utilization and Research Commission, the St. Louis Alcoholism Rehabilitation Centre, and the Board of Governors, Uranium City Hospital for the year ended March 31, 1999. In addition, we report the results of our audit of the Board of Governors, Uranium City Hospital for the year ended March 31, 2000, except for our opinion on the financial statements. We have not yet completed our work on the Board of Governors, Uranium City Hospital's financial statements for the year ended March 31,2000 .

Our audit conclusions and findings

In our opinion, for the year ended March 31, 1999, for the agencies in the previous paragraph and for the year ended March 31, 2000 for the Board of Governors, Uranium City Hospital:

- **the financial statements for the agencies where we have completed our work are reliable;**
- **the agencies had adequate rules and procedures to safeguard and control their assets except for the Board of Governors, Uranium City Hospital; and**
- **the agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the Board of Governors, Uranium City Hospital.**

We also note one other matter for the attention of the Legislative Assembly.

Board of Governors, Uranium City Hospital

Order in Council #508/95 dated June 5, 1995 set up the Board of Governors, Uranium City Hospital (the Hospital).

In 1999, the Hospital had revenues of $1.6 million, expenses of $2.1 million and held assets of $0.2 million. The Hospital plans to include its financial statements in its annual report.

Board needs to understand its responsibilities

Board members do not receive adequate training to understand and carry out their responsibilities.

The Department of Health has a process to select board members. A local community association recommends individuals to the Department of Health who in turn selects the individuals for appointment. As required by law, the Lieutenant Governor in Council appoints the board members of the Hospital.

Once individuals are appointed to the board they receive little formal training to enable them to understand what their responsibilities are and how they are to carry out these responsibilities. In Chapter 1D of our 1999 Fall Report – Volume 2, we set out best practices for developing a board to govern in all its key responsibility areas.

1. **We recommend that the board members should receive adequate training to understand and carry out their responsibilities.**

Board needs to carry out its responsibilities

The Board is responsible to oversee the management of the Hospital's operations. To do this, the Board needs to approve and monitor the Hospital's code of conduct, set strategic and operating direction, and monitor management performance and control. Effective management and control are important for any organization to achieve its strategic and operating objectives.

Code of conduct needed

The Board needs to establish a code of conduct to document the ethical values to be followed by board members, management and staff. A code of conduct is important because an organization's values affect everything it does. When choosing ethical values, the Board needs to consider integrity, objectivity, accountability, and leadership.

2. **We recommend that the Board should approve and adopt a code of conduct for the Hospital.**

Conflict-of-interest guidelines needed

The Hospital's code of conduct needs to include a conflict-of-interest policy for the Board, management and staff.

It is important to have a conflict-of-interest policy to prevent or discourage board members, management and staff from furthering their own interests instead of working to further the goals of the Hospital. A conflict-of-interest policy should require the Board, management, and staff to disclose all situations where there is or may be conflict-of-interest. A board member who may have a conflict-of-interest in any matter before the Board should

declare his or her interest and should refrain from the discussion and voting thereon.

In 2000, we found two (1999 - three) expenditures totalling almost $400 (1999 - $1,000) that were made in situations where apparent conflicts-of-interest exist. The transactions included a donation to one of the board members, payments to board members for taxi service, and personal television repairs.

3. **We recommend the Board establish and approve an appropriate conflict-of-interest policy.**

Strategic plan and operating budget required

The Board delegated to the Chief Executive Officer (CEO) the responsibility to manage and control the operations of the Hospital, and to report back to the Board on the achievement of the Board's objectives. Therefore, the Board must provide clear direction and monitor the performance of the CEO. To do this, the Board needs to approve a strategic plan and an operating budget to reflect the plan. During our examination, we noted the Board did not approve a strategic plan and did not approve an operating budget.

4. **We recommend that the Board should approve a strategic plan.**

5. **We recommend that the Board should approve an operating budget.**

Adequate rules and procedures required

For the Board to adequately manage and control the Hospital, the CEO has to adopt and communicate the code of conduct for the Hospital and establish adequate written rules and procedures to achieve the Hospital's objectives, and safeguard and control the Hospital's assets.

Written rules and procedures provide for the orderly and efficient conduct of business. They help ensure goods and services purchased are:

- authorized and appropriate;

- received and used for the operation and management of the Hospital;
- physically secured; and
- that the prices paid are fair and just.

Rules and procedures also reinforce the Board's delegation of authority and the responsibilities of all employees. Adequate written rules and procedures help reduce the risk of errors, fraud, breakdowns in control and unauthorized transactions.

During 1999, the Hospital incurred expenditures of $2.1 million. The Hospital spent $1.2 million on salaries and benefits, $0.48 million on supplies and other expenses, $0.25 million to the Athabasca Health Facility, and $0.17 million on utilities and amortization.

In the following paragraphs, we set out examples of where the Hospital's rules and procedures were not adequate to safeguard and control the Hospital's assets. The rules and procedures were inadequate because either the rules and procedures were not in place, or were not functioning properly. As a result, we found many payments where there is no evidence that the Hospital received any goods or services.

Bank account not controlled

We noted that one person has the ability to make changes to salaries and benefits, and approves all payments without any independent review. Giving one person the ability to do these things increases the possibility that the Hospital may pay for work not done. Also, there is a lack of evidence that employees were only paid for work done. As a result, we are unable to determine how much of the $1.2 million spent on salaries and benefits was for services provided to the Hospital.

In addition, we found many inappropriate or questionable payments made to employees including:

- payments to employees in excess of the bargaining agreements;
- payments to employees for too many statutory holidays;

- payments to employees for northern living allowance in excess of approved amounts;

- in 1999, no support or approval existed for a paid leave of absence; and

- in 1999, one employee was paid 600 hours in overtime even though there was a full staff complement in place.

Also, we found many payments to suppliers where there was no evidence the Hospital received any goods or services. In 2000, we examined 38 (1999 - 53) payments to suppliers. We found 10 (1999 - 15) payments without adequate evidence that the Hospital received goods or services. Based on our examination, we estimate approximately $98,000 (1999 - $94,000) or 26% (1999 - 16%) of all payments to suppliers lacked adequate evidence that the Hospital received any goods or services.

In December 1998, the Board contacted the Department of Health to request assistance in investigating allegations of potential wrongdoing by two former employees. In March 1999, the Department of Health hired Saskatchewan Property Management Corporation (SPMC) to do an investigation. The investigation focused on payments made to the former employees and did not assess whether all spending was for goods and services received by the Hospital. SPMC reported to the Department in March 2000.

The Department of Health told us it has forwarded the results of its investigation to the Department of Justice. The direction provided by the Department of Justice will determine decisions on appropriate charges.

The Hospital has informed its insurance company it will file a claim on its insurance policy for its loss. The Hospital's insurance policy includes $10,000 coverage for any employee that steals from the Hospital.

6. **We recommend the Hospital establish adequate written rules and procedures to ensure goods and services purchased are authorized and appropriate, are received and used for the operation and management of the Hospital, and that the prices paid are fair and just.**

Inventory not safeguarded

The Hospital needs to improve its control over its inventory.

The Hospital does not have adequate controls to safeguard and control its inventory. Improper controls over inventory can result in the loss of inventory. For example, the Hospital does not lock or prevent public access to its fuel tanks, storage rooms and cabinets containing its supplies of: medical, linen, kitchen, and cleaning products. The Hospital would not know if some inventory went missing.

7. **We recommend that the Hospital improve its control over the Hospital's inventory by securing vulnerable assets.**

Claims not made

The Hospital needs to ensure it recovers money from the Federal Government for the cost of drugs.

The Hospital is allowed to recover, from the Federal Government, the cost of drugs provided to status Indians. For the period of April to December 1998, the Board did not file any claims with the Federal Government to recover the cost of drugs provided to status Indians. The Board is eligible to recover the costs only until one year from the date the drugs were provided. The Hospital tried to recover the outstanding claims but the one-year eligibility period expired. As a result, the Hospital was unable to claim for approximately $16,000 in recoveries.

8. **We recommend the Hospital establish procedures to ensure it recovers from the Federal Government the costs of drugs provided to status Indians.**

The Board needs to define required periodic financial information

In our 1998 Fall Report – Volume 2, we recommend the Board, with the help of senior management, should define and document their periodic financial reporting requirements to ensure they receive suitable and timely financial reports for decision-making.

In January 1999, the Standing Committee on Public Accounts (PAC) agreed with the recommendation. To date, the Board has not formally set out what financial reports it needs to receive from management and when.

9. We continue to recommend the Board, with the help of senior management, should define and document its periodic financial reporting requirements to ensure it receives suitable and timely financial reports for decision-making.

Financial reports for the Board need improvement

In our 1998 Fall Report – Volume 2, we recommend the Board should improve its internal financial reports.

In January 1999, PAC agreed with the recommendation.

To date, we found the internal financial reports provided to the Board still need improvement to ensure the Board receives suitable and timely financial reports for decision-making.

10. We continue to recommend the Board should improve its internal financial reports to include:

- **a full set of financial statements including reports that show what the Hospital owns and what it owes, and its revenues and its expenditures;**
- **an explanation of major differences between year-to-date actual and year-to-date budget;**
- **a projection of revenue and expenses to the end of the year based on current information; and**
- **actual amounts of the prior year for comparison purposes.**

External reporting requirements not met

In our 1998 Fall Report – Volume 2, we recommend the Board submit the monthly information to the Minister as required by *The Hospital Standards Act*.

In January 1999, PAC agreed with the recommendation.

The Board still does not submit to the Minister all information required by *The Hospital Standards Act.*

Section (4) of this Act requires the Board to submit the following information to the Minister monthly:

- statement of its financial transactions; and
- a summary of the hospital services provided by it during the preceding month.

In 2000, the Board submitted some of the information required by *The Hospital Standards Act.*

11. We continue to recommend the Board submit the information to the Minister as required by *The Hospital Standards Act.*

Comparison of planned results to actual results needed

In our 1998 Fall Report – Volume 2, we recommend the Hospital's annual financial statements should present a comparison of actual results with planned results.

In January 1999, PAC agreed with the recommendation.

The Hospital's 1999 annual financial statements issued to the Minister and the public do not include a comparison of planned results to actual results. This is not possible until the Board prepares and approves an operating budget for the Hospital.

12. We continue to recommend the Hospital's annual financial statements present a comparison of actual results with planned results.

This page left blank intentionally.

An overview of privacy

12

Executive summary 166

Introduction 167

What is privacy? 168

Why is privacy important? 168

Legislative and regulatory environment 169

International 169

The Universal Declaration of Human Rights 169

OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data 170

European Union Data Protection Directive 170

Federal 170

Public sector 171

Private sector 171

Criminal 173

Saskatchewan 173

The Privacy Act 173

The Freedom of Information and Protection of Privacy Act 173

The Local Authority Freedom of Information and Protection of Privacy Act 174

The Health Information Protection Act 174

Other privacy provisions 175

Privacy risks and issues 176

Responsibility for privacy 176

Uncertainty about health information 176

Capacity to comply 177

Capacity to monitor 177

Sharing information within government 178

Sharing information outside government 178

Delivering electronic services 179

Additional issues 179

Conclusion 180

Selected resources 181

Executive summary

Personal privacy is about the rights of individuals to be protected against intrusion. Informational privacy relates to the right of individuals to control what information others can learn about them. Both personal and informational privacy are being challenged by advances in technology.

Governments are paying attention to how technology has affected the privacy of its citizens. Governments are wrestling with privacy issues as a protector of the public interest and of individual rights, and as a service provider. To deliver government programs and services, the Government needs information about its citizens. To manage well, the Government must balance the Government's need for information with the privacy rights of its citizens.

Privacy in Saskatchewan is governed by legislation at both the provincial and federal level. This Chapter describes existing and new legislation affecting privacy. The Chapter also outlines international standards and conventions that have influenced privacy legislation.

The Chapter also highlights issues and risks surrounding privacy that the Government will need to manage. For example, there is uncertainty over which legislation applies, federal or provincial. Will organizations have the capacity to comply with new privacy legislation? How does legislation affect necessary sharing of information within and outside government? Do those who monitor privacy have appropriate powers and resources, and do they operate within an appropriate accountability framework? We hope this overview will promote discussion and debate by legislators and the public about issues and risks surrounding privacy.

Introduction

Going to the store, surfing on the Internet, going to the doctor, obtaining government services, walking downtown…as individuals, our privacy is impacted in many of our daily activities.

Advances in technology have made it easier to collect huge amounts of information about us. Technology has made it easier for that information to be stored and matched with other information, allowing an ever more complete picture to be assembled of our lives or activities. Technology has enabled information about us to be sold, distributed and disclosed more widely than ever before.

Governments are wrestling with privacy issues as a protector of the public interest and individual rights, and as a service provider. To deliver government programs and services, the Government needs information about its citizens. To manage well, the Government must balance the Government's need for information with the privacy rights of its citizens. This reflects "…the tension between balancing the often competing objectives of maintaining privacy and improving administrative efficiency and effectiveness."[1]

One goal of our Office is to foster well-managed government. Privacy is one of the many issues that government must manage well to deliver programs and services effectively. In order to fulfil the role of our Office, we must understand how privacy issues affect management of government programs and services.

This overview, and the research behind it, are meant to assist our Office in developing that understanding. The overview is also intended to promote discussion and debate by legislators and the public between maintaining privacy and managing government programs and services well.

To prepare this overview, we reviewed legislation, regulations and standards and examined the literature on privacy. We looked at the work of other legislative audit offices and of information and privacy commissioners. We interviewed people in the Government of Saskatchewan who are working with privacy.

---

[1] Auditor General of Canada, 1998.

The Saskatchewan Information and Privacy Commissioner has specific responsibilities under Saskatchewan's privacy legislation. We consulted with the Information and Privacy Commissioner in preparing this overview.

What is privacy?

Privacy can mean many things. It is a right, a value and an obligation. It can be helpful to think of privacy in terms of personal privacy and informational privacy. Personal privacy is about the rights of individuals to be protected against intrusion. Laws governing when people can be searched, asked for a tissue sample, or monitored by surveillance cameras relate to personal privacy. Informational privacy relates to the right of individuals to control what information others can learn about them and the right to establish limits over how that information can be used. In this Chapter, we focus more on informational privacy.

Privacy is not absolute: society balances privacy with the common good. A striking development is how the "common good" is no longer limited to areas, such as public health and public safety, where one might expect consensus over the need for policies that diminish individual privacy. The "common good" increasingly incorporates the goals of commerce. The Government of Canada has described the issue as the need to strike the right balance between the business need to gather, store and use personal information and the consumer need to be informed about how that information will be used and assured that the information will be protected.[2]

Society also balances privacy with convenience. Individuals may wish to provide a single address change to government, instead of having to contact every government agency they have come into contact with. Governments are responding to demand for increased convenience by introducing "single window" approaches to delivery of services, which may have consequences for privacy.

Why is privacy important?

Privacy is important because it involves values that our society places a great deal of importance on, such as respect for human dignity, individuality, autonomy and freedom. The Privacy Commissioner of

[2] Government of Canada, 1998, 2.

Canada describes privacy as "...one of the underpinnings of a democratic society." The Organisation for Economic Co-operation and Development (OECD) *Guidelines on the Protection of Privacy and Transborder Flows of Personal Data* calls unlawful storage of personal data, the storage of inaccurate personal data, or the abuse or unauthorized disclosure of such data to be "violations of fundamental human rights."[3]

Privacy affects all individuals, and is regarded by many as very important. Surveys consistently indicate the importance of privacy as an issue for Canadians. A 1999 Angus Reid survey for the Canadian Medical Association showed that the greatest concern over privacy related to financial and health information.

Privacy is important also because it is increasingly at risk. Privacy is not protected in a uniform and consistent way. Privacy laws have been labelled "an inconsistent, incomplete and incoherent set of laws, regulations, voluntary codes of practice and policy guidelines...that add up to a patchwork."[4] According to the Privacy Commissioner of Canada, even with the latest legislative initiatives, "...there remain enormous gaps in the protection of individuals from inappropriate intrusions...."

Legislative and regulatory environment

Privacy in Saskatchewan is governed by legislation at the provincial and federal level. International standards and conventions have influenced both provincial and federal legislation. We outline below selected international standards or conventions, federal statutes, and provincial statutes that relate to privacy.

International

The Universal Declaration of Human Rights

Canada signed *The Universal Declaration of Human Rights*, adopted by the United Nations General Assembly in 1948. Article 12 states that no one shall be subjected to arbitrary interference with their privacy, family, home or correspondence, nor to attacks upon their honour and reputation. The

---

[3] OECD, 1980.

[4] House of Commons Standing Committee on Human Rights and the Status of Persons with Disabilities, 1997, 30.

Article states that everyone has the right to protection of the law against such interference or attacks.

OECD *Guidelines on the Protection of Privacy and Transborder Flows of Personal Data*

The OECD *Guidelines on the Protection of Privacy and Transborder Flows of Personal Data* (Guidelines) were created in 1980. Canada joined with the other members of the OECD in adhering to the Guidelines in 1984. The Guidelines set out a number of basic principles about the collection and use of personal information. Because of their voluntary nature, the Guidelines are not enforceable. However, they established common minimum standards for national privacy legislation. The Guidelines formed the basis of the Canadian Standards Association's *Model Code for the Protection of Personal Information* (Model Code). The Model Code was developed, with the participation of the private sector, as a standard to measure how well organizations protect privacy. The Model Code has influenced and been incorporated into new legislative initiatives.

European Union Data Protection Directive

Activities by the European Union involving privacy have played a role in Canada's approach to privacy. In 1998, the European Union's *Directive on the Protection of Individuals with Regard to the Processing of Personal Data and on the Free Movement of Such Data* came into force. The Directive requires member states to enact laws protecting personal information in both public and private sectors. The laws must include provisions blocking transfers of information to non-member states which do not provide adequate protection for the information. This requirement has encouraged the development of the *Personal Information Protection and Electronic Documents Act* (formerly known as Bill C-6) the new federal legislation directed at protecting personal information in the Canadian private sector.

Federal

It is important to distinguish between privacy protection in the public sector and that in the private sector. The federal *Privacy Act* governs how the Federal Government and its organizations and agencies collect, use and disclose personal information. The new *Personal Information Protection and Electronic Documents Act* extends privacy rules to the private sector.

Public sector

The *Canadian Charter of Rights and Freedoms* does not explicitly refer to a right of privacy. Section 7, which sets out the right to life, liberty and security of person, and Section 8, which sets out right to be secure against unreasonable search or seizure, have been interpreted as guarding against invasions of privacy.

The federal *Privacy Act* came into effect in 1983. The Act applies to federal government organizations. The Act establishes a fair information code, which obliges the Federal Government to follow certain principles in the collection, handling and disclosure of personal information. The Act provides for the appointment of a Privacy Commissioner, whose role is to supervise the application of the Act. The Privacy Commissioner investigates complaints that the Act has been breached and can undertake audits of federal government organizations.

Private sector

The *Personal Information Protection and Electronic Documents Act* applies rules for the protection of personal information to the private sector. The Act applies to personal information that is collected, used or disclosed in the course of commercial activities. This includes personal health information.

The Act will apply to both the federally-regulated and the provincially-regulated private sectors (the *Privacy Act* will continue to apply to the federal public sector). However, for the first three years, the Act will only apply to the federally-regulated private sector (i.e., the private sector that is within the legislative authority of Parliament, such as shipping, interprovincial transportation, and banks). The Act received Royal Assent April 13, 2000 and is expected to come into force January 1, 2001.

Section 3 of the Act sets out its purpose:

> ...to establish, in an era in which technology increasingly facilitates the circulation and exchange of information, rules to govern the collection, use and disclosure of personal information in a manner that recognizes the right of privacy of individuals with respect to their personal information and the need of organizations to collect, use or disclose personal information for purposes that a reasonable person would consider appropriate in the circumstances

The Act requires compliance with the Canadian Standards Association's Model Code, which is attached as a schedule. As noted, the Model Code was based upon the OECD Guidelines. Exhibit 1 contains excerpts from the Schedule. The Act also provides the Privacy Commissioner of Canada with authority to investigate complaints, issue reports to Parliament, and conduct audits.

Exhibit 1 Excerpt from Schedule 1 to the *Personal Information Protection and Electronic Documents Act*

Principle 1 - Accountability
An organization is responsible for personal information under its control and shall designate an individual or individuals who are accountable for the organization's compliance with the following principles.

Principle 2 - Identifying Purposes
The purposes for which personal information is collected shall be identified by the organization at or before the time the information is collected.

Principle 3 - Consent
The knowledge and consent of the individual are required for the collection, use, or disclosure of personal information, except where inappropriate.

Principle 4 - Limiting Collection
The collection of personal information shall be limited to that which is necessary for the purposes identified by the organization. Information shall be collected by fair and lawful means.

Principle 5 - Limiting Use, Disclosure, and Retention
Personal information shall not be used or disclosed for purposes other than those for which it was collected, except with the consent of the individual or as required by law. Personal information shall be retained only as long as necessary for the fulfilment of those purposes.

Principle 6 - Accuracy
Personal information shall be as accurate, complete, and up-to-date as is necessary for the purposes for which it is to be used.

Principle 7 - Safeguards
Personal information shall be protected by security safeguards appropriate to the sensitivity of the information.

Principle 8 - Openness
An organization shall make readily available to individuals specific information about its policies and practices relating to the management of personal information.

Principle 9 - Individual Access
Upon request, an individual shall be informed of the existence, use, and disclosure of his or her personal information and shall be given access to that information. An individual shall be able to challenge the accuracy and completeness of the information and have it amended as appropriate.

Principle 10 - Challenging Compliance
An individual shall be able to address a challenge concerning compliance with the above principles to the designated individual or individuals accountable for the organization's compliance.

Criminal

Invasion of privacy is an offence under the *Criminal Code*. The *Criminal Code* makes the use of a device to intercept a private communication an invasion of privacy and a criminal offence.

The *Young Offenders Act* protects against disclosure of the identity of young offenders.

Saskatchewan

References to privacy and confidentiality are scattered throughout Saskatchewan legislation. The primary statutes are outlined below.

The Privacy Act

The Privacy Act allows a person whose privacy has been invaded to sue the person doing the invading without having to show proof of damage. The Act sets out examples of violations, including:

- auditory or visual surveillance;
- use of a person's likeness or voice; and
- use of a person's personal documents.

The Act lists a wide range of defences, including consent, legal authorization, and public interest.

The Freedom of Information and Protection of Privacy Act

This legislation's long title is informative: "An Act respecting a right of access to documents of the Government of Saskatchewan and a right of privacy with respect to personal information held by the Government of Saskatchewan." The Act applies to government organizations, including boards, commissions, Crown corporations or other bodies whose members/directors are appointed by Cabinet, Cabinet Minister, or Crown corporation.

The Act sets out a right to access records. It provides a lengthy definition of "personal information." It sets out rules for collecting, using and disclosing personal information. These include:

- information shall not be collected except for existing or proposed programs or activities;
- information shall be collected directly from individuals; and
- the Government shall not use information under its control unless consent is given.

The Act also provides a wide set of exemptions to these rules.

The Act provides for the establishment of the Information and Privacy Commissioner. The Information and Privacy Commissioner may:

- offer comment on implications for privacy protection of proposed legislative schemes or government programs;
- after hearing the head (Cabinet Minister or prescribed person), recommend that different information be collected or that information collected be destroyed;
- authorize collection of information other than directly; and
- carry out investigations to ensure compliance.

The Local Authority Freedom of Information and Protection of Privacy Act

The provisions of this Saskatchewan Act largely mirror the *Freedom of Information and Protection of Privacy Act*. It applies to "local authorities." These are defined to include (amongst others) municipalities, public libraries, boards of education, regional colleges, universities, hospitals, and any board or commission that receives more than fifty per cent of its annual budget from the Government or a government institution and is prescribed in the regulations.

The Health Information Protection Act

The Saskatchewan Legislative Assembly passed *The Health Information Protection Act* in Spring of 1999. The Act was designed to balance increasing demand for health information and growing concern over privacy.

The Act begins with a statement of principles. These principles are drawn from the Canadian Standards Association's Model Code, as well as other statements of principles on privacy.

The Act gives individuals rights over their personal health information. Individuals are able to obtain access to records of their personal health information. With certain exceptions, an individual must consent to the use or disclosure of their personal health information.

The Act creates a set of consistent rules for all "trustees" in the Health system. Trustees include, among others, government institutions, district health boards, laboratories, pharmacies and health professionals. There are limits on the collection, use and disclosure of personal health information by trustees. Trustees must take steps to protect personal health information.

Saskatchewan's Information and Privacy Commissioner is given powers under the Act. The Commissioner has authority to hear complaints about the operation of the Act, carry out investigations to ensure compliance with the Act, and recommend that trustees stop or change how they collect, use or disclose information.

The Act is not yet in force and there is no firm date set for it to come into force. The Department of Health has indicated its intent to carry out education and awareness programs regarding the Act before it is proclaimed.

Other privacy provisions

In addition to the provisions listed above, there are many other provisions governing privacy and confidentiality. For example:

- public and community health workers are governed by confidentiality provisions in *The Public Health Act, 1994* and *The Child and Family Services Act*;
- mental health service providers are governed by confidentiality provisions in *The Mental Health Services Act* and *Regulations*; child care providers are governed by confidentiality provisions in *The Child Care Regulations*;

- child welfare workers are governed by confidentiality provisions in *The Child and Family Services Act*;
- credit reporting agencies are subject to the confidentiality, information maintenance and disclosure provisions of *The Credit Reporting Agencies Act;* and
- The *Credit Union Act, 1999* and regulations govern the disclosure of confidential information relating to credit unions.

Privacy risks and issues

Technology poses new challenges to privacy. Governments have introduced new legislation to govern privacy. As a result of these changes, there are many new risks and issues surrounding privacy. We set out some of these risks and issues below.

Responsibility for privacy

In Canada, the constitutional division of powers complicates the application of privacy legislation. As noted, the federal *Personal Information Protection and Electronic Documents Act* states that it will apply to information that is subject to provincial jurisdiction after three years. The federal Cabinet may exempt information or activities where provincial legislation affords equivalent protection.

Does the Government of Saskatchewan plan to introduce private sector privacy legislation? The risk is that federal legislation may apply whether or not it is appropriate in the Saskatchewan context.

Uncertainty about health information

A related concern is uncertainty about the interplay between the federal *Personal Information Protection and Electronic Documents Act* and *The Health Information Protection Act*. Government officials expect that the protection provided in *The Health Information Protection Act* will be sufficient to warrant exemption from the federal statute.

There is also uncertainty because these Acts are new. Many issues remain to be sorted out under both Acts. Regulations have not been released for either piece of legislation. It is not clear exactly how, or to

what, they will apply. The Government needs to manage this uncertainty. The Government needs to ensure that education and consultation takes place to address public uncertainty.

Capacity to comply

Some health administrators fear that complying with *The Health Information Protection Act* will be very expensive. For example, there could be significant system changes needed to record and track individuals' consent, or to record and track access to records. The Government needs to ensure that trustees have the capacity to comply with Act.

We note that during the first five years after the Act comes into force, section 65 allows Cabinet to exempt a trustee from the application of the Act. Health districts may seek exemption under this provision. How will exemptions be decided? What will the impact of the exemptions be on the health system?

Capacity to monitor

Saskatchewan's Information and Privacy Commissioner plays a role in protecting privacy with respect to information collected, used or disclosed by the Government of Saskatchewan. This role will be expanded to include responsibilities regarding personal health information under *The Health Information Protection Act.* Under the federal *Personal Information Protection and Electronic Documents Act*, the federal Privacy Commissioner may enter into agreements with provincial counterparts, including Saskatchewan's Information and Privacy Commissioner, to coordinate their activities and their handling of complaints.

Legislators and the public need to know that Saskatchewan's Information and Privacy Commissioner has appropriate powers for protecting privacy. They need to know that the Commissioner has sufficient resources to carry out the duties of the Office. They also need to know that the Commissioner operates within an appropriate and effective accountability framework (see Chapter 1- Towards a better public accountability system).

Sharing information within government

Concern about privacy has been a barrier to government organizations sharing and exchanging information to pursue common goals. In Saskatchewan, the experience of some who work in government was that concern about privacy interfered with useful sharing of information even when sharing would have been permissible under law.

The Human Services sector of the Government responded by publishing *Sharing Information To Improve Services for Children, Youth and Families—A Guide to the Legislation.* This guide summarized the confidentiality requirements attaching to information collected or used by government organizations within the Human Services sector. We were told by a government official that informing people about real constraints encouraged sharing. How will the new legislative changes affect the sharing of information? How can government organizations share information to be able to work together to pursue common goals?

Saskatchewan Health's Person Registry System collects and holds information about Saskatchewan residents for the purpose of registering them for provincial health benefits. The System assigns individuals a Health Services Number, which is a unique, lifetime identifier. The Person Registry System and Health Services Number are used to help administer several government programs. Does the System allow sharing of necessary information among government organizations while balancing privacy concerns?

Sharing information outside government

Government organizations often work with outside partners to fulfil their mandate. In some circumstances, the outside partner will be in the possession of private or confidential information. Where there is no legislation, agreements may provide for the confidentiality and security of information. In some cases, legislation specifically calls for agreements. Are these agreements sufficient to preserve confidentiality and security?

Identifiers such as the Health Services Number described above pose special risks to privacy because they are unique and permanent. The number can be used to tie together other sets of information to one individual. These risks have been noted in the context of the Social Insurance Number in recent reports by Parliamentary Committees, by the

Auditor General of Canada and by the Privacy Commissioner of Canada. The Government needs to ensure that systems and practices are in place to restrict the use of unique identifiers such as the Health Services Number to administration and delivery of government programs. We note that *The Health Information Protection Act* would restrict who could require production of the Health Services Number.

Delivering electronic services

As the Government of Saskatchewan explores the electronic delivery of services, it must ensure that confidential information remains secure. The Information Technology Office has advanced the *Government of Saskatchewan Security Charter* as a common approach for securing information. The Charter sets out eight principles of security, of which the first is as follows:

> Public Confidence is Paramount—the public must be confident that information provided to the Saskatchewan government will be maintained in confidence and adequately protected, regardless of the form (manual or electronic) of the information.

How will the Charter affect practices within government? How will its use be monitored?

The Saskatchewan Land Information Services Corporation is intended to provide faster, simpler, more effective land title, registration and geographic information to citizens and the private sector in Saskatchewan. The Corporation will create electronic land titles tied to the owner and the legal property description using a geographical information system.

The Department of Justice, in consultation with the Corporation, is drafting a new *Land Titles Act*. Given the capabilities of the technology, the Department and the Corporation need to address what information should be made public and how accessible it should be.

Additional issues

There are many other issues involving the privacy of citizens of Saskatchewan. The risk involving many of these is that technology has been or will be adopted without sufficient consideration of the implications for privacy. Some of these include the following:

Internet—Many users of the Internet are aware that their use of the Internet can be tracked and recorded. Fewer users are aware that it is possible to obtain significant amounts of information from an Internet browser's computer.

Convenience/loyalty cards—Users of loyalty cards (such as grocery or travel points cards) have bargained away their privacy. In return for a discount on products or services, their purchasing patterns are tracked, often combined with other information provided by the customer. Are users of these cards and programs aware of the purposes for which the information will be used, and by whom?

Surveillance—Surveillance is becoming increasingly widespread. Surveillance can be used to ensure safety of users, provide security against theft, collect fees, or monitor employees. Private and public spaces are increasingly monitored by video surveillance systems. In the workplace, employers can monitor employee activities by tracking keystrokes on computers, accessing employer voice mail and e-mail systems, monitoring location of employees and vehicles through the use of global positioning devices.

Biometrics— Biometrics involves the identification of an individual using some unique physical characteristic, such as fingerprint or retinal scan. The use of biometrics is considered by some to be a direct invasion of personal privacy. Biometrics offers the physical equivalent of the unique, lifetime identifier described above. The risk is that biometric information will be used to link other sets of information to a recognizable individual.

Conclusion

Advances in technology have resulted in new challenges to personal privacy and to informational privacy. Governments are paying attention to how technology is affecting the privacy of its citizens. Important changes are taking place to privacy laws at all levels of government.

Government will be continually challenged to balance its need for information with the privacy of its citizens. This overview will assist our Office in examining how privacy issues affect the Government's ability to manage well. We hope this overview will promote discussion and debate by legislators and the public about issues and risks surrounding privacy.

Selected resources

Advisory Council on Health Infostructure. (1999). *Canada Health Infoway: Paths to better health.* Ottawa: Government of Canada.

Auditor General of Canada. (1998). Management of the Social Insurance Number. *1998 Report of the Auditor General of Canada.* http://www.oag-bvg.gc.ca/domino/reports.nsf/html/9816ce.html (18 April 2000).

Craig, J. (1999). *Legislative history of Bill C-6.* Ottawa: Library of Parliament, Parliamentary Research Branch. http://www.parl.gc.ca/36/2/parlbus/chambus/house/bills/summaries/c6-e.htm (26 Jan. 2000).

Etzioni, A. (1999). *The limits of privacy.* New York: Basic Books.

Government of Canada. (1998). *The protection of personal information: building Canada's information economy and society.* Ottawa: Author.

House of Commons Standing Committee on Human Resources Development and the Status of Persons with Disabilities. (1999). *Beyond the numbers: The future of the Social Insurance Number system in Canada.* Ottawa: Public Works and Government Services Canada—Publishing.

House of Commons Standing Committee on Human Rights and the Status of Persons with Disabilities. (1997). *Privacy: Where do we draw the line?* Ottawa: Public Works and Government Services Canada—Publishing.

Lawson, I.B. (1997). *Privacy and free enterprise: The legal protection of personal information in the private sector.* (2ed revised by Bill Jeffery). Ottawa: Public Interest Advocacy Centre.

Office of the Information and Privacy Commissioner of British Columbia. (1998). Video surveillance by public bodies: A discussion. http://www.oipcbc.org/investigations/reports/invrpt12.html (11 April 2000).

Organisation for Economic Co-operation and Development. (1980). *Guidelines on the protection of privacy and transborder flows of personal data.* http://oecd.org/dsti/sti/it/secur/prod/PRIV-EN.HTM (6 Jan. 2000).

Owens, R.C. (1998). *Privacy and financial services in Canada.* Research paper prepared for the Task Force on the Future of the Canadian Financial Services Sector. Ottawa: Department of Finance.

Phillips, B. (2000). *Remarks to the Canadian Bar Association—Ontario Institute 2000, Bill C-6, the Personal Information Protection and Electronic Documents Act*, January 28, 2000, Toronto, Ontario. http://www.privcom.gc.ca/english/02_05_a_000128_e.htm (20 March 2000).

Privacy Commissioner of Canada. (1999). *Annual Report.* Ottawa: Author.

Saskatchewan Information Technology Office. (1999). *Government of Saskatchewan Security Charter.* Regina: Author.

Saskatchewan Health. (1999). *An Overview of The Health Information Protection Act.* Regina: Author.

Saskatchewan Health. (2000). *Overview of HIPA* (presentation). Regina: Author.

Saskatchewan Human Services. (1997). *Sharing information to improve services for children, youth and families—A guide to the legislation.* Regina, Government of Saskatchewan.

Smith, J.M. (1997). *Private matters: In defence of the personal life.* Reading, Mass.: Addison-Wesley.

The searchable soul: Privacy in the age of information technology. *Harper's Magazine*, January 2000, pp.57-68.

Whitaker, R. (1999). *The end of privacy: How total surveillance is becoming a reality.* New York: The New Press.

Agriculture and Food

13

Introduction **185**

Our audit conclusions and findings **185**

Saskatchewan Agricultural Stabilization Fund **186**

Reliability of the financial statements 187

Milk Control Board **189**

Written policies and procedures needed 189

Approved contingency plan needed 189

This page left blank intentionally.

Introduction

The Department of Agriculture and Food's mandate is to add value to agriculture by fostering a commercially viable, self-sufficient and sustainable agriculture and food industry in partnership with industry. In carrying out its mandate, the Department administers and is responsible for several special purpose funds and Crown agencies.

Our audit conclusions and findings

This Chapter contains our audit conclusions and findings for:

- the following special purpose funds and Crown agencies for the year ended March 31, 1999 which were not completed in time to include in our 1999 Fall Report – Volume 2:
  - Agri-Food Equity Fund
  - Cattle Marketing Deductions Fund
  - Conservation and Development Revolving Fund
  - Livestock Services Revolving Fund
  - Saskatchewan Agricultural Stabilization Fund
- the Milk Control Board for the year ended December 31, 1999.

We have completed our audit of the Agri-Food Innovation Fund for the year ended March 31, 1999 except for our opinion on the financial statements which were recently sent to Treasury Board for approval. Also, we have not yet completed our audit of Sask Pork for the year ended December 31, 1999. We will report the results of these audits in a future report.

Our Office worked with KPMG, the appointed auditor of the Saskatchewan Agricultural Stabilization Fund, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/).

In our opinion, for the audits we have completed:

- **the financial statements of the Department's special purpose funds and Crown agencies are reliable, except for the Saskatchewan Agricultural Stabilization Fund. In KPMG's**

opinion, the Saskatchewan Agricultural Stabilization Fund's financial statements are reliable;

- **the Department and its Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and**

- **the Department and its Crown agencies had adequate rules and procedures to safeguard and control their assets, except for the Milk Control Board.**

Saskatchewan Agricultural Stabilization Fund

The Department of Agriculture and Food administers the Saskatchewan Agricultural Stabilization Fund (Fund). The Fund reports the transactions of the following four programs in separate accounts.

The New Crops Insurance Program
The Big Game Damage Compensation Program
The Waterfowl Damage Compensation Program
The Agricultural Income Disaster Assistance Program

The New Crops Insurance Program provides assistance to the Saskatchewan Crop Insurance Corporation for insurance losses on new or developmental crops.

The Big Game Damage Compensation Program provides assistance to Saskatchewan farmers for losses to field crops and stacked hay resulting from damage caused by big game.

The Waterfowl Damage Compensation Program provides assistance to Saskatchewan farmers for losses to field crops resulting from damage caused by waterfowl.

The Agricultural Income Disaster Assistance Program (AIDA) provides assistance to Saskatchewan farmers experiencing farm income shortfalls for the 1998 and 1999 calendar years.

The Government of Canada (Canada) and the Government of Saskatchewan (Saskatchewan) agreed to share the costs of the above

programs. Canada and Saskatchewan share the costs of these programs equally, except for AIDA. For AIDA, Canada pays 60% of the costs and Saskatchewan pays 40% of the costs. Saskatchewan administers all the programs, except AIDA. Canada administers AIDA.

The laws governing these programs and the agreements between Canada and Saskatchewan require that all money paid into the Fund for these programs can only be used for the purposes of those programs.

The Fund's financial statements for the year ended March 31, 1999 report revenue of $145.4 million, expenses of $71.0 million and net assets of $94.6 million. The Department's annual report includes the Fund's financial statements.

Reliability of the financial statements

In our opinion, the Fund's 1999 financial statements are not reliable. Those financial statements overstate the Fund's revenue and the excess of revenue over expenses for the year by $72.3 million. Also, the Fund's financial statements overstate the Fund's net assets by $92.3 million and understate the Fund's liabilities by $92.3 million.

As stated earlier, Canada and Saskatchewan agreed to share the costs of the Fund. The agreements externally restrict the Department's use of the money in the Fund to approved program costs. In some years, Canada and Saskatchewan pay money into the Fund before the Department incurs costs for those programs. The Department records money it receives in advance from Canada and Saskatchewan inconsistently.

The Department records money it receives from Canada as debt of the Fund to Canada (deferred revenue) until the Department incurs program costs. When the Department incurs program costs, the Department reduces the debt by the amount of costs and records an equal amount as revenue. This practice follows the accounting recommendations of The Canadian Institute of Chartered Accountants (CICA). For example, in 1999 the Department received $4.6 million for the Big Game Damage Compensation Program and recorded this money as debt of the Fund to Canada. For the year ended March 31, 1999, the Department reduced this debt by the program costs totalling $0.3 million it incurred in 1999 and recorded an equal amount as revenue of the Fund. At March 31, 1999, the Fund's financial statements show a debt of $4.3 million due to Canada.

The Department records the money it receives from the Saskatchewan General Revenue Fund (GRF) as revenue of the Fund regardless of whether or not the Department has incurred program costs. This practice does not follow the accounting recommendations of the CICA. For example, the estimated costs of the two-year AIDA program are $140 million. The Department received $140 million from the GRF in 1999. The Department recorded the entire $140 million as revenue of the Fund. However, the Department only incurred costs of $70 million for this program in 1999.

The Department thinks the money received from Canada has external restrictions and that it is appropriate to record a debt to Canada for the money until program costs are incurred. Also, the Department thinks the money received from the GRF is not externally restricted and therefore, it is not appropriate to record a debt to the GRF for the money until program costs are incurred. We disagree. We think the agreement between Canada and Saskatchewan externally restricted all money in the Fund.

In 1999, the Department recorded $72.3 million of money received from the GRF as revenue of the Fund before the Department incurred the costs to deliver the programs. In 1998, the Department recorded $13.2 million of money received from the GRF as revenue of the Fund for which the Department has not yet incurred the costs to deliver the programs. Also, in 1997 the Department recorded $6.8 million of money received from the GRF as revenue of the Fund for which the Department has not yet incurred the costs to deliver the programs.

As a result, the Fund's financial statements for the year ended March 31, 1999 overstate the Fund's revenue and excess of revenue over expenses by $72.3 million. Also, the Fund's financial statements overstate the Fund's net assets by $92.3 million and understate the Fund's liabilities by $92.3 million.

1. **We recommend the Department should record the money received from the General Revenue Fund (GRF) as a debt of the Saskatchewan Agricultural Stabilization Fund to the GRF until the Department incurs related program costs.**

2. **We recommend the Department should also amend the Saskatchewan Agricultural Stabilization Fund's 1999 financial statements and table the revised financial statements in the Legislative Assembly.**

We did not rely on KPMG's opinion on the Saskatchewan Agricultural Stabilization Fund's financial statements. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the reports of appointed auditors. Our additional work consisted of reviewing the agreements between Canada and Saskatchewan and discussion with the Department's management.

Milk Control Board

The purpose of the Milk Control Board is to control and regulate the marketing of milk in the province. To do so, the Board purchases milk from producers and sells it to processors. Also, the Board manages a quota exchange where producers can buy or sell production quotas.

The Board had revenue and expense of $117 million and held assets of $7.2 million at December 31, 1999.

Written policies and procedures needed

The Board needs written policies and procedures to ensure the financial information it produces is complete and accurate.

We report this matter in our 1998 Fall Report – Volume 2. In January 1999, the Standing Committee on Public Accounts (PAC) concurred with our recommendation.

We continue to recommend that the Board should develop written policies and procedures for preparing accurate financial information.

Management told us that the Board has begun to develop a written policies and procedures manual outlining the Board's requirements for financial reporting. This will be completed by December 31, 2000.

Approved contingency plan needed

The Board needs a written and tested contingency plan to ensure the continuous operations of its computer information systems.

We report this matter in our 1998 Fall Report – Volume 2. In January 1999, PAC concurred with our recommendation.

We continue to recommend the Board should prepare a written contingency plan and test the plan.

Management told us that the Board has begun to document a written contingency plan. This will be completed and tested by December 31, 2000.

Education

14

Introduction **193**

Related special purpose funds and agencies 193

Audit conclusions and findings **193**

Teachers' Superannuation Commission 194

Timely annual report required 195

Update on status of matter reported previously 195

Pensionable earnings 195

Overpayments to retired teachers 196

This page left blank intentionally.

Introduction

The Department of Education is responsible for the overall quality of the Kindergarten to Grade 12 education system in Saskatchewan. Locally-elected boards of education and *conseils scolaries* are responsible for the administration and management of school divisions.

Related special purpose funds and agencies

The Department is responsible for the following special purpose funds and agencies:

	Year end
Correspondence School Revolving Fund	March 31
Saskatchewan Learning Resources Distribution Centre Revolving Fund	March 31
School Division Tax Loss Compensation Fund	March 31
Teachers' Superannuation Commission (which administers the Teachers' Superannuation Plan)	June 30

Chapter 2 of our 1999 Fall Report – Volume 2 contains our findings for the Department and its School Division Tax Loss Compensation Fund for the year ending March 31, 1999.

In this Chapter, we set out findings for the Correspondence School Revolving Fund, Saskatchewan Learning Resources Distribution Centre Revolving Fund and Teachers' Superannuation Commission.

Audit conclusions and findings

In our opinion:

- **The financial statements are reliable for:**
  - **the Correspondence School Revolving Fund for the year ended March 31, 1999,**
  - **the Saskatchewan Learning Resources Distribution Centre Revolving Fund for the year ended March 31, 1999, and**

- **the Teachers' Superannuation Commission for the year ended June 30, 1999.**

- **The above agencies had adequate rules and procedures to safeguard and control their assets except for the matters reported in this Chapter related Teachers' Superannuation Commission.**

- **The above agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter reported in this Chapter related to Teachers' Superannuation Commission.**

The following sections set out the purpose of and our detailed findings for Teachers' Superannuation Commission.

Teachers' Superannuation Commission

The Teachers' Superannuation Commission (Commission) operates under the authority of *The Teachers Superannuation and Disability Benefits Act*. The Commission's primary roles are to:

- provide lifetime retirement and related benefits to teachers; and

- assist the Government of Saskatchewan in its responsibility for ensuring that there are sufficient amounts in the Teachers' Superannuation Fund to pay all allowances and other amounts out of the Teachers' Superannuation Fund as they become due and payable.

The Commission manages the Teachers' Superannuation Plan (Plan) which consists of the Teachers' Superannuation Fund (Fund), a defined benefit final average pension plan, and the Voluntary Contributions Fund.

In 1998-99, the Plan received contributions of $20 million from teachers and $87 million from the Minister of Finance. At June 30, 1999, the Plan held assets of $1.8 billion and had liabilities of $3.6 billion. The Plan has an unfunded liability of $1.8 billion.

Timely annual report required

The Tabling of Documents Act, 1991 required the Commission to table its June 30, 1998 annual report in the Assembly by April 8, 1999. The Commission provided its June 30, 1998 annual report to the Assembly on April 29, 1999.

1. **We recommend the Commission should ensure it provides its annual report to the Legislative Assembly by the date required by law.**

Update on status of matter reported previously

Pensionable earnings

In 1997, the Commission became aware that some school boards incorrectly reported pensionable earnings.

Incorrect reporting of pensionable earnings results in incorrect pension payments. In our 1999 Fall Report – Volume 2, we state the Commission has investigated the matter of incorrectly reported pensionable earnings. The Commission received new reports from the school boards and compared the new reports to past reports to determine incorrect pensionable earnings. The Commission calculated it had overpaid pensions totalling approximately $59,000. The Commission is collecting the amount overpaid. Also, the Commission has corrected its records to show the correct pensionable earnings for active members of the plan.

The Commission has now established rules and procedures to ensure that school boards correctly report active members' pensionable earnings. These procedures include receiving a listing of all of the administrators, directors, and superintendents from the League of Educational Administrators, Directors and Superintendents (LEADS). The Commission also receives a copy of the contracts for these administrators, directors and superintendents from the school boards. To ensure the accuracy of pensionable earnings, the Commission compares the pensionable earnings reported by school boards to the contracts received from the school boards.

Overpayments to retired teachers

In 1997, the Commission also became aware that some school boards incorrectly reported days taught by retired teachers receiving a pension.

In our 1999 Fall Report – Volume 2, we state the Commission had requested all school boards provide new information about the number of days that each retired teacher taught during the past seven years. In the past, some school boards had incorrectly reported the number of days retired teachers taught. *The Teachers Superannuation and Disability Benefits Act* (Act) requires retired teachers receiving a pension who teach more than 120 days in a year (reduced to 60 days after the 1998-99 fiscal year) receive a reduced pension.

The Commission asked school boards to provide revised information about retired teachers who taught. The Commission has now received the requested information from all school boards. The Commission found the revised information provided by some school boards was also incorrect.

The Commission relies on information it receives from school boards about the number of days retired teachers taught in a year. The Commission does not independently verify the information it receives from the school boards about the number of days retired teachers taught in a year. As a result, the Commission can not ensure the pensions it pays to the retired teachers are in accordance with the Act.

To ensure all information affecting members' pensions is accurate, the Commission should establish rules and procedures to independently verify information it receives from the school boards. The Commission can do that by periodically checking school boards' records. Alternatively, the Commission can seek assurance from the school boards' external auditors about the accuracy of information.

2. **We recommend that the Teachers' Superannuation Commission establish rules and procedures to independently verify information it receives from school boards.**

Management told us, the Commission plans to independently verify the information it receives from school boards.

Highways and Transportation

15

Introduction **199**

Financial activity of the Funds and the Corporation 199

Our audit conclusions and findings **200**

Current status of prior recommendation 200

This page left blank intentionally.

Introduction

The Department of Highways and Transportation (DHT) contributes to the social and economic well-being of the Province by:

- developing and administering transportation policies and programs; and

- building, preserving, and regulating the safe use of the transportation system. This system includes public highways, winter roads, bridges, and provincial airports.

The DHT has two special purpose funds to help manage its business. The DHT uses the Highways Revolving Fund to allocate its costs to programs and custom-work projects. The DHT uses the Transportation Partnerships Fund to generate revenue to be spent on highway improvements. The Transportation Partnerships Fund generates revenue from trucking partnership agreements and through the marketing of transportation-related technology and expertise.

The DHT is also responsible for the Saskatchewan Grain Car Corporation. The Corporation is responsible for the Government's fleet of railway hopper cars.

Financial activity of the Funds and the Corporation

In 1998-99, the Highways Revolving Fund had revenues of $27.0 million, expenses of $27.2 million and held assets of $55.6 million. About 70% of the Fund's revenues came from the Department of Highways and Transportation.

In 1998-99, the Transportation Partnerships Fund earned revenue of $1.1 million, spent $1.0 million on its operations and held assets of $1.1 million.

In 1998-99, the Saskatchewan Grain Car Corporation earned revenue of $1.7 million, spent $0.4 million on its operations and held assets of $37.9 million.

Our audit conclusions and findings

In our 1999 Fall Report – Volume 2, we provide an interim report on our audit of the DHT. In this Chapter, we report our final conclusions and findings on our audits of the DHT, the Highways Revolving Fund, and the Transportation Partnerships Fund for the year ended March 31, 1999, and the Saskatchewan Grain Car Corporation for the year ended July 31, 1999.

Our Office worked with Skilnick Robertson Besler Miller & Co. (Skilnick & Co), the Corporation's appointed auditor, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/). Skilnick & Co and our Office formed the following opinions as they relate to the Corporation.

In our opinion:

- **the financial statements of the Highways Revolving Fund, Transportation Partnerships Fund and Saskatchewan Grain Car Corporation are reliable;**
- **the Department complied with the authorities governing its, the Funds', and the Corporation's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing; and**
- **the Department had adequate rules and procedures to safeguard and control its, the Funds', and the Corporation's assets except for the matter we report in this Chapter and the matter we reported in our 1999 Fall Report – Volume 2 (i.e., the Department has not documented its systems and practices for preparing sound interim financial reports).**

Current status of prior recommendation

In our prior reports to the Assembly, we recommended the DHT should develop a financial reporting system that meets management's information needs. The Standing Committee on Public Accounts agreed with our recommendation.

Management needs an adequate financial reporting system to help them monitor and assess the performance of the Highways Revolving Fund. The DHT needs to improve its financial reporting system for the Revolving Fund. Staff cannot produce timely interim and annual financial reports for the Revolving Fund with the current system.

Last year, the DHT designed a new financial reporting system. This year, the DHT implemented most of this new system. The process of converting to the new system was complex and took several months. This affected the adequacy of the interim financial reporting for the Fund during the year. Inadequate information increases the risk that management may make inappropriate decisions.

Management told us it plans to implement the remainder of the new financial reporting system as soon as possible. It believes the new system will address its information needs efficiently.

This page left blank intentionally.

Justice

16

Introduction **205**

Our audit conclusions and findings **205**

Correctional Facilities Industries Revolving Fund **206**

Contract costs require monitoring 206

Better procedures needed to ensure contract prices are appropriate 207

Public Trustee for Saskatchewan **208**

Continued operations at risk 208

This page left blank intentionally.

Introduction

The mandate of the Department of Justice is to promote safe communities, social and economic order, and fair and just relations. The Department's mandate is to operate an independent, impartial and effective justice system which upholds the rule of law and defines the basic legal rights of citizens.

The Department administers justice services, police services, and adult corrections in the Province. The Department administers registry systems for corporations and personal property. The Department also regulates pensions, credit unions and businesses.

In Chapter 4 of our 1999 Fall Report – Volume 2, we report the results of the work we had completed at that time. Our 1999 Fall Report includes our audit conclusions and findings for the Department of Justice, Agricultural Implements Board, Judges of the Provincial Courts Superannuation Plan, Saskatchewan Legal Aid Commission, the Law Reform Commission of Saskatchewan, and the Trust accounts for the courts, local registrars, and sheriffs for the year ended March 31, 1999.

In this Chapter, we report the rest of our work at the Department for the year ended March 31, 1999. We report the results of our audits of the Correctional Facilities Industries Revolving Fund, Office of the Rentalsman Trust Account, Provincial Mediation Board Trust Accounts, Public Trustee for Saskatchewan, Queen's Printer Revolving Fund, and Victims' Fund for the year ended March 31, 1999.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 1999, for funds and agencies in the previous paragraph:

- **the financial statements for the funds and agencies are reliable;**
- **the Department had adequate rules and procedures to safeguard and control the assets of the funds and agencies except, where we report otherwise in this Chapter; and**

- **the Department complied with the authorities governing the activities of the funds and agencies relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

The following sets out our audit conclusions and recommendations for each related agency or fund.

Correctional Facilities Industries Revolving Fund

The Department sells products produced by inmates of the Correctional Centres. This program is intended to provide basic work skills and trade skills training to the inmates and to reduce the costs of operating, maintaining, and repairing correctional facilities. The Department uses the Revolving Fund to account for this program. The Fund had revenue of $1.1 million and held assets of $0.7 million at March 31, 1999. The Fund's financial statements are included in the *Financial Statements – Compendium 1998-99*.

Contract costs require monitoring

The Department needs to follow its established rules and procedures for monitoring the costs of large contracts.

The Department has a system that allows timely comparisons of actual to planned costs for larger contracts. However, the Department does not use the system.

A timely comparison of actual costs to planned costs would assist management:

- in controlling the costs of large contracts; and
- in preparing estimates and customer quotes for similar future contracts.

Failure to monitor the costs of large contracts can result in cost overruns and losses to the Fund.

We report this matter in each of our Spring Reports since 1995. The Standing Committee on Public Accounts agreed with our recommendation on December 12, 1996 and again on October 8, 1998.

We continue to recommend that the Department follow its established rules and procedures for monitoring the costs of large contracts.

Management told us it implemented new policies in May 1999 to ensure established rules and procedures for monitoring the costs of large contracts are followed.

Better procedures needed to ensure contract prices are appropriate

The Department needs to follow its established rules and procedures and consistently apply them to ensure prices quoted to customers for large contracts are appropriate.

The Department has established rules and procedures that require a second person to review and approve price quotes. This review and approval of estimates and quotes reduces the possibility of errors occurring in contract prices quoted to customers. If the price quoted is too low, the Department could incur losses on these contracts.

However, staff members have not complied with these rules and procedures.

As a result, there is little evidence a second person has reviewed and approved the accuracy of estimates and quotes.

We report the matter in each of our Spring Reports since 1997. The Standing Committee on Public Accounts agreed with our recommendation on October 8, 1998.

We continue to recommend the Department ensure it documents and consistently applies its rules and procedures to ensure all estimates and customer quotes for large contracts are reviewed and approved by a second person.

Management told us it implemented new policies in May 1999 to ensure rules and procedures are documented and consistently applied to ensure all estimates and customer quotes for large contracts are reviewed and approved by a second person.

Public Trustee for Saskatchewan

The Public Trustee for Saskatchewan (Trustee) administers the property of dependent adults, and protects the property rights of children. It also, administers the affairs of certain deceased persons.

The Trustee administered assets of $136 million at March 31, 1999. The Trustee's financial statements are included in the *Financial Statements – Compendium 1998-99*.

Continued operations at risk

The Trustee's ability to continue operations is at risk.

In each of our Spring Reports since 1997, we report continued operations of the Trustee are at risk due to:

- old computer equipment;
- the lack of a tested disaster recovery plan because of a lack of compatible computer equipment; and
- computer programs that cannot handle Year 2000 data.

We continue to recommend that the Trustee replace its computer system as soon as possible. The Standing Committee on Public Accounts agreed with our recommendation on October 8, 1998.

At March 31, 1999, the Trustee was developing a new computer system. Management told us the new system began operating in October 1999. To date, certain aspects of the system are not functioning as planned. As a result, we continue to have concerns.

Also, in a letter Management advised us:

> This was a major undertaking for the Trustee's staff. All functions were implemented except for the Fees and Common Fund functions. These functions will be implemented at a later date. Management plans in the year 2000-2001 to continue to improve the system and meet any concerns of the Provincial Auditor's office. Management has negotiated an agreement with the British Columbia Public Guardian and Trustee to further enhance the functionality of the system. This will allow the Trustee to better meet the needs of clients.

Appendix 1

NOTE:

All persons making use of this consolidation are reminded that it has no legislative sanction, that the amendments have been embodied only for convenience of reference and that the original statutes and regulations should be consulted for all purposes of interpretation and application of the law. Please note, however, that in order to preserve the integrity of the original statutes and regulations, errors that may have appeared are reproduced in this consolidation.

The Provincial Auditor Act

SHORT TITLE AND INTERPRETATION

Short Title

1 This Act may be cited as *The Provincial Auditor Act.*

Interpretation

2 In this Act:

(a) **"acting provincial auditor"** means the acting provincial auditor appointed pursuant to section 5;

(a.1) **"appointed auditor"** means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) **"audit"** means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) **"Crown"** means Her Majesty the Queen in right of Saskatchewan;

(d) **"Crown agency"** means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) **"Crown-controlled corporation"** means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) **"fiscal year"** means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) **"provincial auditor"** means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

(h) **"public money"** means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) **"public property"** means property held or administered by the Crown. 1983, c.P-30.01, s.2; 1986-87-88, c.26, s.4.

APPOINTMENT AND OFFICE

Appointment of provincial auditor

3(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) **Repealed.** 1986-87-88, c.26, s.5.

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly. 1983, c.P-30.01, s.3; 1986-87-88, c.26, s.5.

Salary

4(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less than his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund. 1983, c.P-30.01, s.4.

Acting provincial auditor

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor. 1983, c.P-30.01, s.5.

Qualifications of provincial auditor, acting provincial auditor

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan. 1983, c.P-30.01, s.6.

Advisors, etc.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary. 1983, c.P-30.01, s.7.

Office of the provincial auditor

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) *The Public Service Superannuation Act* and *The Superannuation (Supplementary Provisions) Act* apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or fund established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office. 1983, c.P-30.01, s.8.

Confidentiality

9 The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation. 1983, c.P-30.01, s.9.

Delegation of authority

10 The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly. 1983, c.P-30.01, s.10.

DUTIES AND POWERS

Examination of accounts

11(1) The provincial auditor is the auditor of the accounts of the government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants. 1986-87-88, c.26, s.6.

Reliance on report of appointed auditor

11.1(1) In the fulfillment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) Where the provincial auditor determines pursuant to subsection (1) that he is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(3) Where the provincial auditor has performed additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (2), he shall report in his annual report pursuant to this section:

(a) the reason that he was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;

(b) the nature of the additional audit work he conducted; and

(c) the results of the additional audit work. 1986-87-88, c.26, s.6.

Annual Report

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservation of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

(b) any public money was not duly accounted for and paid into the appropriate fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

(e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of public money; or

(g) essential records were not maintained or the rules and procedures applied were not sufficient:

(i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant. 1983, c.P-30.01, s.12; 1986-87-88, c.26, s.7.

Special report

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent. 1983, c.P-30.01, s.13.

Tabling of reports

14(1) Notwithstanding *The Tabling of Documents Act, 1991*, the provincial auditor shall submit to the Speaker, as soon as practicable:

(a) his annual report prepared pursuant to section 12;

(b) any supplemental report based on the financial statements of the Government of Saskatchewan; and

(c) any special report that is prepared by him pursuant to section 13;

and the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to this subsection.

(2) Where the Legislature is not in session when the Speaker is required to lay the reports referred to in subsection (1) before the Legislative Assembly, the Speaker shall submit the reports to the Clerk of the Legislative Assembly, whereupon such reports shall be deemed to be tabled.

(3) On receipt of the reports referred to in subsection (1), the Clerk of the Legislative Assembly shall:

(a) cause copies of the reports to be delivered to all members of the Legislative Assembly;

(b) make the reports available for public inspection during normal business hours of the Clerk of the Legislative Assembly.

(4) Where the Speaker submits the reports referred to in subsection (1) to the Clerk of the Legislative Assembly pursuant to subsection (2), those reports shall be deemed referred to the Standing Committee of the Legislative Assembly on Public Accounts. 1994, c.44, s.2.

Certification of Statements

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor. 1983, c.P-30.01, s.15; 1986-87-88, c.26, s.9.

Special assignments

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding *The Tabling of Documents Act*:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council. 1983, c.P-30.01, s.16.

Improper retention of public money

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance. 1983, c.P-30.01, s.17.

Cancelled securities

18 The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself that the securities described in clause (a) have been properly cancelled; and

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities. 1983, c.P-30.01, s.18.

Attendance before Public Accounts Committee

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the items described in clause (a). 1983, c.P-30.01, s.19.

AUDIT COMMITTEE

Audit committee

20(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

(2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.

(3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.

(4) The audit committee may determine its rules of procedure. 1983, c.P-30.01, s.20.

Meetings of audit committee

21 On the request of the provincial auditor or the Minister of Finance, the chairman of the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee. 1983, c.P-30.01, s.21.

Information on scope and results of audits

22 The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the results of any audit or examination made by him. 1983, c.P-30.01, s.22.

Availability of reports

23 The provincial auditor shall present to the audit committee:

(a) his annual report; and

(b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker. 1983, c.P-30.01, s.23.

GENERAL

Right to information, accommodation

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed. 1983, c.P-30.01, s.24; 1986-87-88, c.26, s.10.

Inquiries

25 The provincial auditor may examine any person on any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under *The Public Inquiries Act*. 1983, c.P-30.01, s.25.

Working papers

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature. 1983, c.P-30.01, s.26; 1986-87-88, c.26, s.11.

Change in auditor

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan. 1986-87-88, c.26, s.12.

Auditor to audit office of provincial auditor

27(1) An accountant, who is:

(a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;

(b) not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and

(c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts. 1983, c.P-30.01, s.27.

Fees

28 The provincial auditor may charge a reasonable fee for professional services provided by his office. 1983, c.P-30.01, s.28.

Limitation of liability

29 The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act. 1983, c.P-30.01, s.29.

Information confidential

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

(a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act; and

(b) shall not communicate those matters to any person, other than when he is required to do so in connection with:

(i) the administration of this Act;

(ii) any proceedings under this Act; or

(iii) any proceedings in a court of law. 1983, c.P-30.01, s.30; 1986-87-88, c.26, s.13.

Appropriation

31 Subject to subsection 4(4), any sums required by the provincial auditor for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose. 1983, c.P-30.01, s.31; 1986-87-88, c.26, s.14.

Transitional

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Financial Act*, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force. 1983, c.P-30.01, s.32.

REGINA, SASKATCHEWAN
Printed by the authority of
THE QUEEN'S PRINTER

Appendix 2

List of organizations subject to an examination under *The Provincial Auditor Act*

Appendix 2 lists the departments, Crown agencies, Crown-controlled corporations, special purpose and trust funds, offices of the Legislative Assembly and other organizations subject to an audit examination under *The Provincial Auditor Act* at December 31, 1999.

Departments and Secretariats:	**Year End**
Department of Agriculture and Food	March 31
Department of Economic and Co-operative Development	March 31
Department of Education	March 31
Department of Energy and Mines	March 31
Department of Environment and Resource Management	March 31
Department of Finance	March 31
Department of Health	March 31
Department of Highways and Transportation	March 31
Department of Intergovernmental and Aboriginal Affairs	March 31
Department of Justice	March 31
Department of Labour	March 31
Department of Municipal Affairs, Culture and Housing	March 31
Department of Post-Secondary Education and Skills Training	March 31
Department of Social Services	March 31
Executive Council	March 31
Women's Secretariat	March 31

Crown Agencies:	
3231518 Canada Ltd. (clickabid ™)	December 31
3339807 Canada Ltd.	December 31
3364381 Canada Ltd.	December 31
604408 Saskatchewan Ltd.	December 31
617275 Saskatchewan Ltd.	December 31
620064 Saskatchewan Ltd.	December 31
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Agri-Food Innovation Fund	March 31
Assiniboine Valley District Health Board	March 31

Crown Agencies (continued):	Year End
Associated Entities Fund	March 31
Avonlea Holding Inc.	December 31
Battlefords District Health Board	March 31
Battleford International, Inc.	December 31
Bayhurst Gas Limited	December 31
Beef Development Board	March 31
Board of Governors, Uranium City Hospital	March 31
Canodev Research Inc.	July 31
Carlton Trail Regional College	June 30
Carlyle Holding, Inc.	December 31
Central Plains District Health Board	March 31
Chicken Farmers of Saskatchewan	December 31
CIC Industrial Interests Inc.	December 31
CIC Pulp Ltd.	December 31
Crown Investments Corporation of Saskatchewan	December 31
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
DirectWest Publishing Partnership	December 31
Dundurn Holding, Inc.	December 31
East Central District Health Board	March 31
First Nations Fund	March 31
Gabriel Springs District Health Board	March 31
Genex Swine Group Inc.	September 30
Greenhead District Health Board	March 31
Health Services Utilization and Research Commission	March 31
Hollywood at Home Inc.	December 31
Hospitality Network Canada Inc.	December 31
Information Queries and Analysis Partnership	December 31
Keewatin Yathe District Health Board	March 31
Law Reform Commission of Saskatchewan	March 31
Liquor and Gaming Authority	March 31
Liquor Board Superannuation Commission, The	December 31
Living Sky District Health Board	March 31
Lloydminster District Health Board	March 31
Mamawetan Churchill River District Health Board	March 31
Many Islands Pipe Lines (Canada) Limited	December 31
Midwest District Health Board	March 31
Milk Control Board	December 31
Moose Jaw-Thunder Creek District Health Board	March 31
Moose Mountain District Health Board	March 31

Crown Agencies (continued):	Year End
Municipal Employees' Pension Commission	December 31
Municipal Financing Corporation of Saskatchewan	December 31
Municipal Potash Tax Sharing Administration Board	December 31
New Careers Corporation	March 31
North Central District Health Board	March 31
North Valley District Health Board	March 31
North West Regional College	June 30
North-East District Health Board	March 31
Northern Enterprise Fund Inc.	December 31
Northlands College	June 30
Northwest District Health Board	March 31
Parkland District Health Board	March 31
Parkland Regional College	June 30
Pasquia District Health Board	March 31
Pipestone District Health Board	March 31
Prairie Agricultural Machinery Institute	March 31
Prairie West District Health Board	March 31
Prairie West Regional College	June 30
Prince Albert District Health Board	March 31
Power Corporation Superannuation Board	December 31
Power Greenhouses Inc.	December 31
Public Employees Pension Plan	March 31
Public Service Commission, The	March 31
Public Service Superannuation Board	March 31
Regina District Health Board	March 31
Rolling Hills District Health Board	March 31
Sask Pork	December 31
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Arts Board, The	March 31
Saskatchewan Apprenticeship and Trade Certification Commission	June 30
Saskatchewan Assessment Management Agency	December 31
Saskatchewan Auto Fund	December 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Cancer Foundation	March 31
Saskatchewan Canola Development Commission	July 31
Saskatchewan Centre of the Arts	March 31
Saskatchewan Commercial Egg Producers' Marketing Board	December 31
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Crop Insurance Corporation	March 31
Saskatchewan Development Fund Corporation	December 31

Crown Agencies (continued):	Year End
Saskatchewan Flax Development Commission	July 31
Saskatchewan Forest Products Corporation	December 31
Saskatchewan Gaming Corporation	March 31
Saskatchewan Government Growth Fund Ltd.	December 31
Saskatchewan Government Growth Fund II Ltd.	December 31
Saskatchewan Government Growth Fund III Ltd.	December 31
Saskatchewan Government Growth Fund IV Ltd.	December 31
Saskatchewan Government Growth Fund V (1997) Ltd.	December 31
Saskatchewan Government Growth Fund VI Ltd.	December 31
Saskatchewan Government Growth Fund VII Ltd.	December 31
Saskatchewan Government Growth Fund VIII Ltd.	December 31
Saskatchewan Government Growth Fund Management Corporation	December 31
Saskatchewan Government Insurance	December 31
Saskatchewan Government Insurance Superannuation Plan	December 31
Saskatchewan Grain Car Corporation	July 31
Saskatchewan Health Information Network	March 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Housing Corporation	December 31
Saskatchewan Indian Regional College	June 30
Saskatchewan Institute of Applied Science and Technology	June 30
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation	March 31
Saskatchewan Municipal Board	March 31
Saskatchewan Opportunities Corporation	December 31
Saskatchewan Pension Annuity Fund	March 31
Saskatchewan Pension Plan	December 31
Saskatchewan Power Corporation	December 31
Saskatchewan Property Management Corporation	March 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Research Council, The	March 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Telecommunications	December 31
Saskatchewan Telecommunications Holding Corporation	December 31
Saskatchewan Telecommunications International, Inc.	December 31
Saskatchewan Trade and Export Partnership Inc.	March 31
Saskatchewan Transportation Company	December 31
Saskatchewan Turkey Producers' Marketing Board	December 31
Saskatchewan Water Corporation	December 31
Saskatchewan Wetland Conservation Corporation	March 31
Saskatoon District Health Board	March 31
SaskEnergy Chilean Holdings I Ltd.	December 31

Crown Agencies (continued):	Year End
SaskEnergy Chilean Holdings II Ltd.	December 31
SaskEnergy Chilean Holdings Limitada	December 31
SaskEnergy Incorporated	December 31
SaskEnergy International Incorporated	December 31
SaskPen Properties Ltd.	December 31
SaskPower International Inc.	December 31
SaskTel Data Exchange Inc.	December 31
SaskTel Holding (New Zealand) Inc.	December 31
SaskTel New Media Fund Inc.	December 31
SaskTel Telecommunications Consulting Inc.	December 31
SaskTel Holding (U.K.) Inc.	December 31
SecurTek Monitoring Solutions Inc.	December 31
SecurTek Partnership No. 1	December 31
SecurTek Partnership No. 2	December 31
SGC Holdings Inc.	March 31
SGI CANADA Insurance Services Ltd.	December 31
South Central District Health Board	March 31
South Country District Health Board	March 31
South East District Health Board	March 31
Southeast Regional College	June 30
Southwest District Health Board	March 31
SP Two Properties Ltd.	March 31
Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission	December 31
St. Louis Alcoholism Rehabilitation Centre	March 31
Swift Current District Health Board	March 31
Teachers' Superannuation Commission	June 30
TecMark International Commercialization Inc.	March 31
Touchwood Qu'Appelle District Health Board	March 31
TransGas Limited	December 31
Twin Rivers District Health Board	March 31
Water Appeal Board	March 31
Western Canadian Beef Packers Inc.	November 20
Western Development Museum	March 31
Workers' Compensation Board	December 31
Workers' Compensation Board Superannuation Plan	December 31
Special Purpose and Trust Funds:	
Agri-Food Equity Fund	March 31

Special Purpose and Trust Funds (continued):	Year End
Big Game Damage Compensation Fund	March 31
Capital Pension Plan	December 31
Cattle Marketing Deductions Fund	March 31
Commercial Revolving Fund	March 31
Conservation and Development Revolving Fund	March 31
Correctional Facilities Industries Revolving Fund	March 31
Correspondence School Revolving Fund	March 31
Crop Reinsurance Fund of Saskatchewan	March 31
Doukhobors of Canada C.C.U.B. Trust Fund	May 31
Extended Health Care Plan	December 31
Extended Health Care Plan for Certain Other Employees	December 31
Fish and Wildlife Development Fund	March 31
General Revenue Fund	March 31
Highways Revolving Fund	March 31
Horned Cattle Fund	March 31
Judges of the Provincial Court Superannuation Plan	March 31
Learning Resources Distribution Centre Revolving Fund	March 31
Livestock Services Revolving Fund	March 31
Members of the Legislative Assembly Superannuation Plan	March 31
Northern Revenue Sharing Trust Account	December 31
Office of the Rentalsman - Rentalsman's Trust Account	March 31
Oil and Gas Environmental Fund	March 31
Prepaid Funeral Services Assurance Fund	March 31
Private Vocational Schools Training Completions Fund	March 31
Provincial Mediation Board Trust Account	March 31
Public Employees Benefits Agency Revolving Fund	March 31
Public Employees Deferred Salary Leave Fund	December 31
Public Employees Dental Fund	December 31
Public Employees Disability Income Fund	December 31
Public Employees Group Life Insurance Fund	December 31
Public Trustee for Saskatchewan	March 31
Queen's Printer Revolving Fund	March 31
Resource Protection and Development Revolving Fund	March 31
Saskatchewan Agricultural Stabilization Fund	March 31
Saskatchewan Development Fund	December 31
Saskatchewan Legal Aid Commission	March 31
Saskatchewan Legal Aid Commission Client Trust Accounts	March 31
Saskatchewan Research Council Employees' Pension Plan	December 31
Saskatchewan Snowmobile Fund	March 31
Saskatchewan Student Aid Fund	March 31

Special Purpose and Trust Funds (continued):	**Year End**
Saskatchewan Telecommunications Pension Plan	December 31
School Division Tax Loss Compensation Fund	March 31
Social Services Central Trust Account	March 31
Transportation Partnerships Fund	March 31
Trust Accounts at Court House, Local Registrars and Sheriff's Offices	March 31
Victims' Fund	March 31

Other organizations subject to examination under *The Provincial Auditor Act:*

Chief Electoral Office	March 31
Government of Saskatchewan - Summary Financial Statements	March 31
Legislative Assembly Office	March 31
Ombudsman and Children's Advocate, Office of the	March 31
Pension Plan for the Eligible Employees at the University of Saskatchewan, 1974	December 31
Provincial Auditor, Office of the	March 31
Saskatchewan Archives Board, The	March 31
University of Regina, The	April 30
University of Regina Academic and Administrative Employees Pension Plan	December 31
University of Regina Crown Foundation	April 30
University of Regina Master Trust	December 31
University of Regina Non-Academic Pension Plan	December 31
University of Regina Pension Plan for Eligible Part-Time Employees	December 31
University of Saskatchewan, The	April 30
University of Saskatchewan Academic Employees' Pension Plan	December 31
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31
University of Saskatchewan Crown Foundation	April 30
University of Saskatchewan Long Term Disability Fund	April 30

This page left blank intentionally.

Appendix 3

Audits not completed at April 30, 2000

This Report includes the results of all audits completed at April 30, 2000 for government agencies with fiscal periods ended December 31, 1999 or earlier. To provide timely reporting, we try to report government agencies with March fiscal year ends in our fall reports and those with December year ends in our spring reports. To ensure we provide the Legislative Assembly and the public with timely reports, we include the results of incomplete planned audits in future reports.

At the time of this report, we have not or did not plan to complete the audits of the following government agencies. In most cases, the audits are delayed. For a few sectors (i.e., health districts and regional colleges), we had decided to carry out the larger audits and use a rotational approach for the remainder. In a few cases, we have not been given access to the necessary infromation.

For producer elected agricultural marketing boards, we carry out audits of the larger boards, i.e., SaskPork and Saskatchewan Canola Development Commission. For the smaller boards, we examine the supervisory work carried out by the Department of Agriculture through the Agricultural and Food Products Development and Marketing Council. As part of our work, we examine the supervisory work carried out by the Council regarding the financial statements of these boards and the rules and procedures to safeguard and control their assets and to comply with legislative authorities.

Delayed Audits:	**Year End**
Agri-Food Innovation Fund	March 31
Chief Electoral Office	March 31
Northern Revenue Sharing Trust Account	December 31
Pension Plan for the Eligible Employees at the University of Saskatchewan, 1974	December 31
Sask Pork	December 31
University of Regina Academic and Administrative Employees Pension Plan	December 31
University of Regina Master Trust	December 31
University of Regina Non-Academic Pension Plan	December 31
University of Regina Pension Plan for Eligible Part-Time Employees	December 31
University of Saskatchewan Academic Employees' Pension Plan	December 31

Delayed Audits (continued):	**Year End**
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31
Workers' Compensation Board	December 31

Rotational Audits:

District Health Boards

Assiniboine Valley District Health Board	March 31
Battlefords District Health Board	March 31
Central Plains District Health Board	March 31
East Central District Health Board	March 31
Living Sky District Health Board	March 31
Lloydminster District Health Board	March 31
Midwest District Health Board	March 31
Moose Mountain District Health Board	March 31
North Central District Health Board	March 31
North Valley District Health Board	March 31
North-East District Health Board	March 31
Parkland District Health Board	March 31
Pasquia District Health Board	March 31
Pipestone District Health Board	March 31
Rolling Hills District Health Board	March 31
South Central District Health Board	March 31
South Country District Health Board	March 31
South East District Health Board	March 31
Southwest District Health Board	March 31
Swift Current District Health Board	March 31
Touchwood Qu'Appele District Health Board	March 31
Twin Rivers District Health Board	March 31

Regional Colleges

Cypress Hills Regional College	June 30
Cumberland Regional College	June 30
Northland College	June 30
Prairie West Regional College	June 30
Saskatchewan Indian Regional College	June 30
Southeast Regional College	June 30

Smaller Producer Elected Agricultural Marketing Boards:	**Year End**
Chicken Farmers of Saskatchewan	December 31
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Commercial Egg Producers' Marketing Board	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Turkey Producers Marketing Board	December 31

Denied Access to Information:	
First Nations Fund (1997, 1998 and 1999)	March 31
SaskPen Properties Ltd.	December 31
SP Two Properties Ltd.	March 31

This page left blank intentionally.

Appendix 4

Organizations where we found no significant matters to report to the Legislative Assembly

Appendix 4 lists government organizations with fiscal periods ended December 31, 1999 or earlier that we have not reported in previous reports, and that, in our and the organization's appointed auditor's opinion had:

- reliable financial statements;
- adequate rules and procedures to safeguard and control their assets;
- complied with the authorities governing their activities relating to financial reporting, safeguarding of assets, revenue raising, spending, borrowing, and investing; and
- no other matters requiring the attention of the Legislative Assembly.

In cases where the organization has an appointed auditor, that auditor supports our opinion. We report elsewhere in this Report on those government organizations where we found matters or issues requiring the attention of the Legislative Assembly.

Crown Agencies:

Agricultural Credit Corporation of Saskatchewan
Beef Development Board
Health Services Utilization and Research Commission
Law Reform Commission of Saskatchewan
Liquor Board Superannuation Commission
Municipal Employees' Pension Comission
Municipal Financing Corporation of Saskatchewan
Municipal Potash Tax Sharing Administration Board
New Careers Corporation
Public Service Commission, The
Saskatchewan Arts Board, The
Saskatchewan Auto Fund
Saskatchewan Cancer Foundation
Saskatchewan Grain Car Corporation
Saskatchewan Health Information Network
Saskatchewan Forest Products Corporation

Crown Agencies (continued):

Saskatchewan Municipal Board
Saskatchewan Research Council
Saskatchewan Wetland Conservation Corporation
St. Louis Alcoholism Rehabilitation Centre
Western Development Museum

Special Purpose and Trust Funds:

Agri-Food Equity Fund
Cattle Marketing Deductions Fund
Conservation & Development Revolving Fund
Correspondence School Revolving Fund
Doukhobors of Canada C.C.U.B. Trust Fund
Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Learning Resources Distribution Centre Revolving Fund
Livestock Services Revolving Fund
Office of the Rentalsman - Rentalsman's Trust Account
Provincial Mediation Board Trust Account
Public Employees Benefits Agency Revolving Fund
Public Employees Deferred Salary Leave Fund
Public Employees Dental Fund
Public Employees Disability Income Fund
Public Employees Group Life Insurance Fund
Saskatchewan Government Insurance Superannuation Plan
Saskatchewan Legal Aid Commission
Saskatchewan Legal Aid Commission Client Trust Accounts
Social Services Central Trust Account
Trust Accounts at Court House, Local Registrars and Sheriff's Offices
Victims' Fund

Other organizations subject to examination under *The Provincial Auditor Act*:

Ombudsman and Children's Advocate, Office of the

Appendix 5

Examples of opinions we form on departments, Crown agencies and Crown-controlled corporations

Our mission states "We encourage accountability and effective management in government operations". We do this by examining and reporting on:

- the reliability of financial information;
- compliance with authorities;
- the adequacy of management systems and practices related to financial reporting, compliance with authorities and safeguarding assets; and
- the adequacy of management systems and practices related to due regard to economy, efficiency and effectiveness.

Our examinations and reports focus on the Government as a whole, sectors or programs of government, and individual government organizations. This Appendix contains examples of the audit opinions we form to provide our assurances on financial statements, compliance with authorities, and management practices in this Report. We use the auditing standards recommended by The Canadian Institute of Chartered Accountants to form our opinions.

1. **Following is an example of the opinion we form on the adequacy of the control systems used by an agency to safeguard and control public money.**

> I have examined the system of internal control of [Crown Agency X] in effect as at [date]. I did not examine certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in The Canadian Institute of Chartered Accountants Handbook.
>
> My examination was conducted in accordance with generally accepted auditing standards. Those standards require that I plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of internal control and

performing tests of controls to determine whether the internal controls exist and operate effectively.

The management of [Crown Agency X] is responsible for establishing and maintaining a system of internal control to achieve the control objectives noted in (a) to (d) below. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to my responsibilities under Section 11(1) of *The Provincial Auditor Act*, I am required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In my opinion, based upon the above criteria, the system of internal control of [Crown Agency X] in effect as at [date], taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to [Crown Agency X].

Or if the examination disclosed conditions that, individually or in combination result in one or more material weaknesses, the opinion paragraph should be modified as follows:

My examination disclosed the following conditions in the system of internal control of [Crown Agency X] as at [date] which in my opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to [Crown Agency X] may occur and not be detected within a timely period.

The report should go on to describe all material weaknesses, state whether they resulted from the absence of control procedures or the degree of compliance with them, and describe the general nature of the potential errors or fraud that may occur as a result of the weaknesses.

City Date Chartered Accountant

2. **Following is an example of the opinion we form on an agency's compliance with the law regarding its spending, revenue raising, borrowing and investing activities.**

I have made an examination to determine whether [Crown Agency X] complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding assets, spending, revenue raising, borrowing and investing activities during the year ended [date]:

(List legislative and related authorities covered by this report. This list must include all governing authorities.)

My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, [Crown Agency X] has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended [date].

(The report should provide adequate explanation with respect to any reservation contained in the opinion together with, if relevant and practicable, the monetary effect.)

City Date Chartered Accountant

3. Following is an example of the opinion we form on the financial statements prepared by management of an agency.

I have audited the balance sheet of [Crown Agency X] as at [date] and the statements of income, retained earnings and changes in financial position for the year then ended. The [Crown Agency X]'s management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the [Crown Agency X] as at [date] and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

City Date Chartered Accountant

Saskatchewan

Special Report by the Provincial Auditor to the Legislative Assembly of Saskatchewan regarding Changes to *The Provincial Auditor Act*

February 2000

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Telephone: (306) 787-6398
Fax: (306) 787-6383

E-mail: info@auditor.sk.ca
Website: www.auditor.sk.ca

Vision

We envision effective, open and accountable government.
We are committed to making a difference by encouraging excellence in public sector management and reporting practices.

Mission

Our Office serves the people of Saskatchewan through the Legislative Assembly. We encourage accountability and effective management in government operations through our independent examinations, advice and reports on the management of public resources entrusted to government.

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

SASKATCHEWAN

Phone: (306) 787-6360
Fax: (306) 787-6383
Internet e-mail: strelioff@auditor.sk.ca

February 17, 2000

The Honourable Ronald Osika
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *Special Report to the Legislative Assembly of Saskatchewan Regarding Changes to the Provincial Auditor Act* in accordance with the provisions of Section 14 of *The Provincial Auditor Act.*

Respectfully submitted,

ORIGINAL SIGNED

Wayne Strelioff, CA
Provincial Auditor

/dd

This page left blank intentionally.

Special Report Regarding Changes to *The Provincial Auditor Act*

Introduction 7

Setting the Provincial Auditor's Objectives 9

The Assembly's risks 9

Why the Act should address these risks 10

How the current Act addresses these risks 10

Recommendation for change to the Act 10

Setting the Provincial Auditor's Responsibility and Authority 11

The Assembly's risks 11

Why the Act should address these risks 11

How the current Act addresses these risks 12

Recommendations for changes to the Act 14

Providing the Provincial Auditor with the Capacity to Do the Job 15

The Assembly's risks 15

Why the Act should address these risks 16

How the current Act addresses these risks 18

Recommendations for changes to the Act 19

Making the Provincial Auditor Accountable for Plans and Results 20

The Assembly's risks 20

Why the Act should address these risks 21

How the current Act addresses these risks 22

Recommendations for changes to the Act 23

Summary 23

Appendix 24

This page left blank intentionally.

Introduction

Legislators' views sought

The December 6, 1999 Speech from the Throne states the Government will introduce changes to *The Provincial Auditor Act* to update this legislation.

The purpose of this Report is to obtain the views of the Standing Committee on Public Accounts on what changes to the Act are necessary to strengthen the accountability of the Government to the Legislative Assembly.

In our 1999 Fall Report - Volume 2, we said we would seek the advice of the Standing Committee on Public Accounts on changes to the Act before the Minister of Finance introduces changes to the Assembly. It is important that we obtain the advice of this Committee because the mandate of this Committee is to "work with the Provincial Auditor to achieve maximum accountability [of the Government] to the Legislature".

After I receive the Committee's advice, I will draft proposed changes to the Act and provide them to the Minister of Finance.

Risk

Well-managed governing bodies are those that establish adequate control to manage the key risks their organizations face as they work to achieve their objectives. We suggest the Committee use a risk management approach to consider what changes to the Act are required to achieve the Assembly's objectives. One of the Assembly's objectives is to hold the Executive Government accountable for its use of the powers and the resources entrusted to it.

The Legislative Assembly is the governing body. The Executive Government receives its powers and resources from the Assembly. The Executive Government is accountable to the Assembly for the Government's use of its powers and the resources entrusted to it.

Assembly's Risk

One of the key risks to the Assembly of not achieving its objective is that it will not have independent, relevant and reliable information on the Government's performance. To help address this risk, the Assembly enacted *The Provincial Auditor Act.*

Respect for the law makes our parliamentary system of government work. Addressing, in *The Provincial Auditor Act*, the risks to the Assembly of not obtaining independent information on the Government's performance will help to prevent actions that may result in the Assembly not obtaining the independent information it needs to hold the Government accountable.

Autonomy and Accountability

As the Standing Committee on Public Accounts considers what changes to the Act are necessary, I ask it to consider the relationship between accountability and autonomy. Over the years, I have noticed ongoing confusion between these two concepts. Some officials state that to strengthen the accountability of an organization, the organization should have less autonomy. This action has the opposite effect. When the autonomy of an organization is weakened, the organization becomes less accountable because it cannot be held accountable for decisions made by others.

Also, I often hear officials argue that because an organization has autonomy, that organization should not be accountable. All organizations earn autonomy through being accountable for their performance. All organizations should have the required autonomy and should be held accountable for their decisions and performance.

I think government organizations and my Office should have complete autonomy to do our jobs and we should be made fully accountable to the Assembly for our decisions.

An effective accountability relationship should ensure there is:

- An agreed upon plan that is clear as to responsibilities, authority, performance expectations, and resources needed,
- A reliable report on performance, and
- A reasonable review of performance.

Report Framework

We used the framework established by the Criteria of Control Board of The Canadian Institute of Chartered Accountants (CICA) to help us identify the Assembly's risks in obtaining independent, reliable and relevant information from the Provincial Auditor.

In this Report, we set out our views of the Assembly's key risks in obtaining independent, reliable and relevant information from the Provincial Auditor about the Government's performance. We think those risks relate to:

- setting the Provincial Auditor's objectives,
- setting the Provincial Auditor's responsibility and authority,
- providing the Provincial Auditor the capacity to do the job, and
- making the Provincial Auditor accountable for plans and results.

For each of these four topics, we set out:

- the risks associated with each topic,
- why the Act should address those risks,
- how well the current Act addresses each risk, and
- recommendations for changes to the Act to improve the accountability of the Government and our Office to the Assembly.

I look forward to reviewing this Report with the Standing Committee on Public Accounts. There are many recommendations in this Report that will improve the accountability of the Government to the Assembly and the accountability of the Provincial Auditor to the Assembly. The appendix to this Report contains a schedule that will help the Committee work through the 15 key risks identified in this report and our recommendations to address those risks.

Setting the Provincial Auditor's Objectives

The Assembly's risks

To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance:

- the Act should explicitly set out the Assembly's objective for the Provincial Auditor, and
- the Act should exclusively govern the Provincial Auditor.

Why the Act should address these risks

Objectives provide direction. Well-managed governing bodies are those that set out their purpose in terms of clear and measurable objectives.

Explicitly setting out the Provincial Auditor's objectives in law ensures that everyone understands what the Assembly wants from the Provincial Auditor. Explicitly setting the Provincial Auditor's objectives in law prevents the Government and the Assembly's Committees and Boards from interpreting the law in a way that prevents the Provincial Auditor from providing the Assembly the information it needs. Also, setting the Provincial Auditor's purpose in law will help to ensure the Provincial Auditor achieves the Assembly's objective.

Changes to the Provincial Auditor's responsibilities should be made within *The Provincial Auditor Act* and not through other acts. Making changes within the Act ensures the Assembly can fully understand and debate the implications. The Standing Committee on Public Accounts agreed with this important principle in 1993 when it considered changes to *The Crown Corporations Act, 1993*. That Act was proposing changes to the Provincial Auditor's responsibilities.

How the current Act addresses these risks

The current Act does not explicitly set out the Assembly's objective for establishing the Provincial Auditor.

The current Act exclusively governs the Provincial Auditor.

Recommendation for change to the Act

1. **We recommend the Assembly should revise the Act to explicitly set out the Assembly's objective for establishing the Provincial Auditor.**

We suggest the Act should contain the following objective for the Provincial Auditor. The Provincial Auditor's objective is to ensure the Assembly receives independent, relevant and reliable information about the Government's management of the public resources and responsibilities entrusted to it by the Assembly. The Provincial Auditor assists the Assembly to hold the Government accountable for its performance. This objective is consistent with current practice.

Setting the Provincial Auditor's Responsibility and Authority

The Assembly's risks

To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance:

- The Act should clearly set out the information that the Provincial Auditor is responsible to provide to the Assembly. That information should be consistent with the Assembly's objectives,
- The Act should give the Provincial Auditor the authority to provide the required information, and
- The Act should ensure the Provincial Auditor shares the same values as the Assembly.

Why the Act should address these risks

To ensure the Assembly receives the information it expects from the Provincial Auditor, it is important the Act clearly states what information the Provincial Auditor is responsible to provide. We look to the mandate of the Standing Committee on Public Accounts to determine what information the Assembly expects from the Provincial Auditor to achieve the Assembly's objective.

The Committee's mandate sets out what it will examine and evaluate. As stated in its mandate, the Committee works with the Provincial Auditor to effectively carry out the Committee's examinations and evaluations. The Committee therefore needs information from the Provincial Auditor consistent with the Committee's examinations and evaluations.

The Committee states it will examine and evaluate:

- The collection of and accounting for revenue.
- The probity of and value for money in tax expenditures.
- The adequacy of safeguards to protect assets from loss, waste and misappropriation.
- Whether appropriate financial management controls are in existence.
- The systems and practices to determine whether transfer payments are used for purposes intended.

- The efficiency, economy, and effectiveness and value for money in implementation of government programs and in their achievement of stated goals in the operation and acquisition of goods and services.
- Whether expenditures are within the limits and for purposes authorized by the Legislature and in general, in compliance with legislative authority.
- Any financial management reforms in government to determine whether due regard is given to maintaining legislative accountability (e.g., changes to *The Provincial Auditor Act*).
- The activities of all Crown corporations and agencies.
- The value for money obtained from the divestiture of any Crown corporation or agency.

The Act should provide the Provincial Auditor the authority to examine and report on all government organizations and on other organizations that receive public money (e.g., recipients of transfer payments). This is necessary so the Provincial Auditor can provide the Assembly with all the information required by the Committee's examination and evaluation mandate.

Shared ethical values influence everything an organization does. The Assembly and the Provincial Auditor should share the same ethical values for public sector conduct. Setting out in law, what values the Assembly wants the Provincial Auditor to have will help ensure the Provincial Auditor discharges responsibilities and exercises authority following the Assembly's values.

Ethical values for the conduct of public business include selflessness, integrity, objectivity, accountability, and leadership.

How the current Act addresses these risks

The current Act sets out what information the Provincial Auditor is responsible to provide the Assembly. We interpret the Act as sufficient to provide the Standing Committee on Public Accounts with this information. However, the wording of the Act is not clearly consistent with the information the Committee needs to effectively carry out the Committee's examination and evaluation mandate. As a result, government officials sometimes argue that the Provincial Auditor's mandate to provide information to the Assembly does not extend to all of the matters listed in the Committee's mandate. To ensure the Assembly receives the

information it needs, the Assembly should change the Act to clearly set out what information it requires from the Provincial Auditor.

We think the current Act gives the Provincial Auditor the authority to examine and report on all government organizations. Sometimes, however, there is confusion about the Provincial Auditor's authority. Also, the current Act does not ensure the Provincial Auditor can examine and report on how well recipients of transfer payments manage public money. To ensure the Assembly receives the information it needs, the Assembly needs to change the Act to clearly set out the Provincial Auditor's authority. Four areas need change.

1. At times, there is confusion about the Provincial Auditor's authority and responsibility when the Government appoints its own auditor to audit a government agency. In February 1994, in response to a Standing Committee on Public Accounts recommendation, the Crown Investments Corporation of Saskatchewan (CIC) and the Provincial Auditor established a Task Force to clarify the roles, responsibilities, and duties of auditors. The Task Force reported to the Committee on October 27, 1994. The Chair of the Task Force advised the Committee that the Task Force concluded:

   - The Assembly created one overall auditor, the Provincial Auditor, to audit the accounts of the Government of Saskatchewan
   - The duties and responsibilities of the Provincial Auditor, as defined in *The Provincial Auditor Act*, apply to the audits of commercial Crown corporations, either directly or through reliance on appointed auditors.
   - Audits, whether done by the Provincial Auditor or appointed auditors, ultimately must satisfy the needs of the Assembly.

   The Chair of the Task Force also advised the Committee that the conclusions formed the basis for the recommendations of the Task Force. On October 27, 1994, the Committee agreed with the Task Force recommendations. The Task Force protocols have operated satisfactorily for several years. The protocols relate to how audits are planned, carried out and reported to satisfy the needs of the Assembly. The Act should include the Task Force's protocols and conclusions.

2. At times, there is confusion about the Provincial Auditor's authority to examine and report on government organizations established

under a business corporations act or *The Non-profit Corporations Act, 1995*. When government officials do not allow the Provincial Auditor to examine these organizations, the Assembly does not receive the information it requires for holding the Government accountable for its performance.

3. The Government is carrying out more of its programs in partnerships. There may be confusion in the future about the Provincial Auditor's authority to examine and report on cost and revenue sharing programs carried out in partnership with other jurisdictions and other levels of government.

4. The current Act does not ensure the Provincial Auditor's authority to examine the management practices of recipients of transfer payments to ensure public money is safeguarded and spent for the purpose intended.

In addition, the current Act does not explicitly set out the ethical values the Assembly expects of the Provincial Auditor for the conduct of public business.

Recommendations for changes to the Act

2. **We recommend the Assembly should revise the Act to specifically require the Provincial Auditor to provide the following additional information about the Government's performance. The Provincial Auditor should report to the Assembly:**
   - **When the Government's use of public money has not been efficient and economical.**
   - **When the Government has not established satisfactory procedures, where procedures could appropriately and reasonably have been used to measure and report on the effectiveness of programs.**
   - **Whether the Government's performance reports are reliable and include clear measurable objectives, the risks to achieving those objectives, how the risks are managed, and the planned and actual results.**
   - **When recipients of transfer payments do not have adequate systems and practices to safeguard and control public money and have not used public money for the purpose intended.**

- **When tax expenditures (credits) do not have appropriate financial controls and do not have appropriate procedures to measure and report on the effectiveness of the tax expenditures.**

3. **We recommend the Assembly should revise the Act to make it clear that the Provincial Auditor has the authority to examine and report on:**
   - **all government organizations regardless of whether or not the Government has appointed its own auditor to audit an organization. The conclusions and recommendations of *The Report of the Task Force on the Roles, Responsibilities and Duties of Auditors* should be included in the Act,**
   - **all government agencies created under a business corporations act or *The Non-profit Corporations Act, 1995* that are owned by the Government or that may be controlled by the Government,**
   - **partnerships with other jurisdictions and other levels of government, and**
   - **how recipients of transfer payments managed public money.**

4. **We recommend the Assembly should revise the Act to clearly set out the ethical values the Assembly wants the Provincial Auditor to have for conducting public business.**

Providing the Provincial Auditor with the Capacity to Do the Job

The Assembly's risks

To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance:

- The Act should ensure that the Provincial Auditor enjoys the protection of the Assembly,
- The Act should ensure the Provincial Auditor has the required resources,
- The Act should ensure the Government and the Assembly's committees and boards cannot intrude on the Provincial Auditor's

responsibility to decide what should be audited and how it should be audited and reported to the Assembly,

- The Act should ensure the Government and the Assembly's committees and boards cannot interfere with the Provincial Auditor's authority to decide and acquire the necessary people and tools needed to meet the Assembly's objective,
- The Act should ensure the Provincial Auditor has access to people, places, documents, and electronic information to provide the Assembly with the information it requires,
- The Act should ensure the Provincial Auditor provides reliable information to the Assembly, and
- The Act should provide for the periodic renewal of the position of Provincial Auditor.

Why the Act should address these risks

The Provincial Auditor should be an Officer of the Legislative Assembly. This way the Provincial Auditor enjoys the protection accorded to the Assembly's Officers by *The Legislative Assembly and Executive Council Act*. A committee of the Assembly should select and recommend to the Assembly a person for appointment as Provincial Auditor to ensure the Assembly is involved. The Standing Committee on Public Accounts is the appropriate committee to select the Provincial Auditor as this Committee must work closely with the Provincial Auditor. Also, The Act should set the Provincial Auditor's salary. This ensures the Government and committees and boards of the Assembly cannot change the Provincial Auditor's salary. The Provincial Auditor needs the protection of the rules of the Assembly, which ensure a full public debate of the Provincial Auditor's salary. All of these protections will help ensure the Provincial Auditor can examine and report on difficult issues in a credible manner. To be of value, the Provincial Auditor must be truly independent and perceived to be independent.

The Assembly should influence the amount of resources for the Provincial Auditor that is included in the Estimates. Also, to prevent a conflict of interest, members of the Executive Council or Government-appointed officials should not have the ability to influence or be perceived to influence the amount of resources for the Provincial Auditor that is included in the Estimates. The Standing Committee on Public Accounts is made up of elected members that are not members of the Executive Council. In 1983, the Committee changed its rules for membership to recognize a conflict of interest if members of the Executive Council sat on a committee charged

with holding the Executive Government accountable. Before this change, members of the Executive Council were members of the Committee. The Committee is the appropriate committee to review and recommend the Provincial Auditor's resources. Currently, the Board of Internal Economy recommends our resources. This Board includes members of the Executive Council. Also, under the Act we have to audit the accounts of the Board.

Also, the Assembly should provide the Provincial Auditor with flexibility to react to unforeseen issues that the Provincial Auditor must examine (e.g. Channel Lake and the closure of the Plains Health Centre). To provide this flexibility, the Act needs to provide the Provincial Auditor with the autonomy to use revenues such as audit fees and to retain unspent resources at the end of a fiscal year to pay for the costs of audits. The Assembly can control the amount of unspent resources the Provincial Auditor has through the annual amount included in the Estimates for the Provincial Auditor. We note the Assembly has given many government agencies the autonomy to use revenues and unspent resources from previous years to carry out their responsibilities so they have the flexibility to do their jobs effectively.

If the Assembly is to receive independent and relevant advice, the Provincial Auditor must have the autonomy (independence) to decide what audit work needs to be done and how the work is carried out and reported to the Assembly (i.e., the work plan). The Act must ensure the Provincial Auditor is truly independent of the Government and its appointed officials in deciding the work plan. Also, the Act must ensure the Provincial Auditor can decide the work plan without interference from the Assembly's committees and boards. A key safeguard for ensuring the Provincial Auditor can examine and report difficult issues in a credible manner is the protection of the rules of the Assembly which ensure a full public debate. If those that are audited by the Provincial Auditor decide the Provincial Auditor's work plan, they have a conflict of interest. Also, if others decide the Provincial Auditor's work plan, the Provincial Auditor is no longer accountable for the work plan. To obtain the views of the Assembly on the adequacy of the work plan, the Standing Committee on Public Accounts should review the plan. The Committee should advise the Provincial Auditor what changes to the plan would help the Committee carry out its mandate.

If the Assembly is to receive independent, reliable, and relevant advice, the Provincial Auditor must have the autonomy (independence) to decide and

acquire the necessary people and tools that are needed to do the job properly. The Act must ensure the Provincial Auditor can acquire the necessary people and tools without interference from the Executive Government and its appointed officials and committees and boards of the Assembly.

The Provincial Auditor needs unrestricted access to officials and accounts that the Provincial Auditor is required to examine to provide the Assembly with the required information. If government officials do not give the Provincial Auditor access to accounts they manage (e.g., the First Nations Fund), the Act should impose penalties on those officials.

The Act should require the Provincial Auditor to adhere to rigorous auditing standards to ensure the information provided to the Assembly is reliable. Currently, The Canadian Institute of Chartered Accountants sets generally accepted auditing standards for the private and public sectors.

The Provincial Auditor should be appointed for a fixed term. Appointing the Provincial Auditor for a fixed term provides for the periodic renewal of the position of Provincial Auditor to bring new ideas to the operation of the Office. The term should be long enough so that the Provincial Auditor can effect positive change to the Government's management of public resources. Making a difference to the way the Government manages public resources can take many years.

How the current Act addresses these risks

The current Act makes the Provincial Auditor an Officer of the Assembly. The current Act does not make the Standing Committee on Public Accounts responsible to select and recommend to the Assembly a person for appointment as the Provincial Auditor. Currently, the Act states Cabinet selects and appoints the Provincial Auditor. The Provincial Auditor's salary has the protection of the Assembly because the Act sets the Provincial Auditor's salary. The salary is currently set at the average salary of all Deputy Ministers to recognize the importance of the position in relation to government officials.

The current Act does not require the Standing Committee on Public Accounts to decide the Provincial Auditor's resources that are included in the Estimates the Government presents to the Assembly. Similar to many government agencies, the Act gives the Provincial Auditor the authority to

receive other revenues, to use those revenues and to retain unspent resources.

The current Act provides the Provincial Auditor with complete independence from the Assembly's committees and boards and the Government. The Provincial Auditor decides what is to be audited and how the audit is carried out and reported to the Assembly (i.e., the work plan). The current Act attaches conditions and allows the Provincial Auditor to refuse assignments requested by the Assembly's committees and the Government. This was done to ensure the Provincial Auditor was not diverted from doing the primary work set out in the Act.

The current Act gives the Provincial Auditor the autonomy to decide how best to spend the resources available to obtain the required people and tools to do the job properly.

The current Act provides the Provincial Auditor with adequate access except for access to recipients of transfer payments. However, the Act does not impose penalties on officials who restrict the Provincial Auditor's access.

The current Act ensures the reliability of the information the Provincial Auditor provides to the Assembly. The Act requires the Provincial Auditor to be a Chartered Accountant. The Act also requires the Provincial Auditor to follow generally accepted auditing standards as prescribed by The Canadian Institute of Chartered Accountants. The Institute of Chartered Accountants of Saskatchewan has processes for ensuring Chartered Accountants do their examinations properly.

The current Act does not provide for the periodic renewal of the position of Provincial Auditor. The Provincial Auditor is appointed until the Provincial Auditor reaches the age of 65, or the Assembly removes the Provincial Auditor for cause, or the Provincial Auditor chooses to end his or her tenure.

Recommendations for changes to the Act

5. **We recommend the Assembly should revise the Act:**
   - **To require the Standing Committee on Public Accounts to:**

- **select and recommend to the Assembly a person for appointment as Provincial Auditor, and**
- **decide the resources for the Provincial Auditor that is included in the Estimates that the Government presents to the Assembly,**

- **To provide the Provincial Auditor with access to the people, places, documents, and electronic information of recipients of transfer payments,**

- **To state that officials who fail to provide the Provincial Auditor access to the accounts they manage are deemed to have obstructed an Officer of the Legislative Assembly in the discharge of the duties required by the Assembly. The Act should then require a debate about this matter as provided for by *The Legislative Assembly and Executive Council Act*, and**

- **To make the appointment of the Provincial Auditor for a ten-year fixed term.**

As a transitional matter, the Committee should discuss and decide the date that the current Provincial Auditor's term begins and include that date in any changes to the Act.

Making the Provincial Auditor Accountable for Plans and Results

The Assembly's risks

To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance:

- The Act should require the Standing Committee on Public Accounts to monitor what is happening within Saskatchewan and in other jurisdictions to re-evaluate the Assembly's objective for the Provincial Auditor,
- The Act should clearly set out the Provincial Auditor's accountability to the Assembly for the use of authority and the discharge of responsibilities, and

- The Act should require the Standing Committee on Public Accounts to monitor the Provincial Auditor's performance to ensure the Assembly is receiving the information it needs to hold the Government and the Provincial Auditor accountable.

Why the Act should address these risks

The Assembly needs to monitor what is happening in Saskatchewan and in other jurisdictions to re-evaluate periodically its objective for the Provincial Auditor. This is necessary to ensure the Provincial Auditor continues to fulfill the Assembly's information needs. The Assembly should require the Standing Committee on Public Accounts to do this because this Committee works most closely with the Provincial Auditor. Also, this Committee's mandate is to hold the Government accountable for its performance.

The Act should provide the Provincial Auditor with complete autonomy to discharge the Provincial Auditor's responsibilities. With this autonomy it is important that the Provincial Auditor is accountable for the use of authority and the discharge of responsibilities.

An effective accountability relationship should ensure there is:

- An agreed upon plan that is clear as to responsibilities, authority, performance expectations, and resources needed;
- A reliable report on performance; and
- A reasonable review of performance.

In other sections of this Report, we discussed responsibilities, authority and resources. In this section, we discuss the information the Assembly needs on the Provincial Auditor's expected (planned) performance and actual performance and on the review of the planned and actual performance.

To hold the Provincial Auditor accountable, the Act should require the Provincial Auditor to give the Assembly two performance reports. Those reports are a business and financial plan setting out planned performance and an annual report on operations setting out actual performance. The performance reports should include audit assurance from the person who audits the Provincial Auditor that the performance reports are reliable.

The Act should also ensure the Assembly receives independent, reliable and relevant information about other aspects of the Provincial Auditor's

performance (e.g., compliance with the law) directly from the person who audits the Provincial Auditor.

The Assembly needs to monitor the Provincial Auditor's planned and actual performance and to provide advice to the Provincial Auditor to improve performance. This is necessary to ensure the Provincial Auditor provides the Assembly with required information about the Government's performance effectively. To recognize the Provincial Auditor is accountable only to the Assembly, the review should be carried out by a Committee of the Assembly that does not include Cabinet Ministers or Government-appointed officials. The Standing Committee on Public Accounts is the appropriate committee to monitor the Provincial Auditor's performance. The Act should require the Committee to do so and provide the Committee with the authority to acquire the resources to do so effectively.

How the current Act addresses these risks

The current Act does not require the Standing Committee on Public Accounts to periodically reassess the Assembly's objective for the Provincial Auditor.

The current Act does not require the Provincial Auditor to give the Assembly an annual business and financial plan setting out planned performance and an annual report on operations setting out actual performance. The Provincial Auditor currently gives the Assembly these two reports. The Act should require the Provincial Auditor to give these two reports to the Assembly.

The current Act requires that an auditor appointed by Cabinet audits the Provincial Auditor. By law, that auditor is required to provide independent, reliable, and relevant information to the Standing Committee on Public Accounts about the Provincial Auditor's performance. Also, by law, the auditor that audits the Provincial Auditor has the same authority and responsibility as the Provincial Auditor.

The current Act does not require the Standing Committee on Public Accounts to review the Provincial Auditor's planned and actual performance and to provide advice to the Provincial Auditor.

Recommendations for changes to the Act

6. **We recommend the Assembly should change the Act to require:**
   - **the Standing Committee on Public Accounts to periodically review the Assembly's objective for the Provincial Auditor,**
   - **the Provincial Auditor to give the Assembly an annual business and financial plan and an annual report on operations, and**
   - **the Standing Committee on Public Accounts to review annually the plan and the report on operations with the Provincial Auditor and to provide advice to improve the Provincial Auditor's performance. The Act should also provide the Committee with authority to acquire the resources to do so effectively.**

Summary

I look forward to reviewing this Report with the Standing Committee on Public Accounts. There are many recommendations in this Report that will improve the accountability of the Government to the Assembly and the accountability of the Provincial Auditor to the Assembly. The appendix to this Report contains a schedule that will help the Committee work through the 15 key risks identified in this report and our recommendations to address those risks.

Appendix - Special Report Regarding Changes to *The Provincial Auditor Act*

The Assembly's Risks	Why the Act should address the risks
1. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should explicitly set out the Assembly's objective for the Provincial Auditor.	Objectives provide direction. Well-managed governing bodies are those that set out their purpose in terms of clear and measurable objectives. Explicitly setting out the Provincial Auditor's objectives in law ensures that everyone understands what the Assembly wants from the Provincial Auditor. Explicitly setting the Provincial Auditor's objectives in law prevents the Government and the Assembly's Committees and Boards from interpreting the law in a way that prevents the Provincial Auditor from providing the Assembly the information it needs. Also, setting the Provincial Auditor's purpose in law will help to ensure the Provincial Auditor achieves the Assembly's objective.
2. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should exclusively govern the Provincial Auditor.	Changes to the Provincial Auditor's responsibilities should be made within *The Provincial Auditor Act* and not through other acts. Making changes within the Act ensures the Assembly can fully understand and debate the implications. The Standing Committee on Public Accounts agreed with this important principle in 1993 when it considered changes to *The Crown Corporations Act, 1993*. That Act was proposing changes to the Provincial Auditor's responsibilities.

How the current Act manages the risks	Recommendation for change to the Act
The current Act does not explicitly set out the Assembly's objective for establishing the Provincial Auditor.	The Act should clearly set out the Assembly's purpose for establishing the Provincial Auditor. We suggest the Act should contain the following objective for the Provincial Auditor. The Provincial Auditor's objective is to ensure the Assembly receives independent, reliable and relevant information about the Government's management of the public resources and responsibilities entrusted to it by the Assembly. The Provincial Auditor assists the Assembly to hold the Government accountable for its performance. This objective is consistent with current practice.
The current Act exclusively governs the Provincial Auditor.	No change recommended.

The Assembly's Risks	Why the Act should address the risks
3. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should clearly set out the information that the Provincial Auditor is responsible to provide to the Assembly. That information should be consistent with the Assembly's objectives.	To ensure the Assembly receives the information it expects from the Provincial Auditor, it is important the Act clearly states what information the Provincial Auditor is responsible to provide. We look to the mandate of the Standing Committee on Public Accounts to determine what information the Assembly expects from the Provincial Auditor to achieve the Assembly's objective. The Committee's mandate sets out what it will examine and evaluate. As stated in its mandate, the Committee works with the Provincial Auditor to effectively carry out the Committee's examinations and evaluations. The Committee therefore needs information from the Provincial Auditor consistent with the Committee's examinations and evaluations. The Committee states it will examine and evaluate: ♦ The collection of and accounting for revenue. ♦ The probity of and value for money in tax expenditures. ♦ The adequacy of safeguards to protect assets from loss, waste and misappropriation. ♦ Whether appropriate financial management controls are in existence. ♦ The systems and practices to determine whether transfer payments are used for purposes intended. ♦ The efficiency, economy, and effectiveness and value for money in implementation of government programs and in their achievement of stated goals in the operation and acquisition of goods and services. ♦ Whether expenditures are within the limits and for purposes authorized by the Legislature and in general, in compliance with legislative authority. ♦ Any financial management reforms in government to determine whether due regard is given to maintaining legislative accountability (e.g., changes to *The Provincial Auditor Act*). ♦ The activities of all Crown corporations and agencies. ♦ The value for money obtained from the divestiture of any Crown corporation or agency.

How the current Act manages the risks	Recommendation for change to the Act
The current Act sets out what information the Provincial Auditor is responsible to provide the Assembly. We interpret the Act as sufficient to provide the Standing Committee on Public Accounts with this information. However, the wording of the Act is not clearly consistent with the information the Committee needs to effectively carry out the Committee's examination and evaluation mandate. As a result, government officials sometimes argue that the Provincial Auditor's mandate to provide information to the Assembly does not extend to all of the matters listed in the Committee's mandate. To ensure the Assembly receives the information it needs, the Assembly should change the Act to clearly set out what information it requires from the Provincial Auditor.	The Act should be changed to specifically require the Provincial Auditor to provide the following additional information about the Government's performance. The Provincial Auditor should report to the Assembly: ♦ When the Government's use of public money has not been efficient and economical. ♦ When the Government has not established satisfactory procedures, where procedures could appropriately and reasonably have been used to measure and report on the effectiveness of programs. ♦ whether the Government's performance reports are reliable and include clear measurable objectives, the risks to achieving those objectives, how the risks are managed, and the planned and actual results. ♦ When recipients of transfer payments do not have adequate systems and practices to safeguard and control public money and have not used public money for the purpose intended. ♦ When tax expenditures (credits) do not have appropriate financial controls and do not have appropriate procedures to measure and report on the effectiveness of the tax expenditure.

The Assembly's Risks	Why the Act should address the risks
4. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should give the Provincial Auditor the authority to provide the required information.	The Act should provide the Provincial Auditor the authority to examine and report on all government organizations and on other organizations that receive public money (e.g., recipients of transfer payments). This is necessary so the Provincial Auditor can provide the Assembly with all the information required by the Committee's examination and evaluation mandate.

How the current Act manages the risks	Recommendation for change to the Act
We think the current Act gives the Provincial Auditor the authority to examine and report on all government organizations. Sometimes, however, there is confusion about the Provincial Auditor's authority. Also, the current Act does not ensure the Provincial Auditor can examine and report on how well recipients of transfer payments manage public money. To ensure the Assembly receives the information it needs, the Assembly needs to change the Act to clearly set out the Provincial Auditor's authority. Four areas need change.	
1. At times, there is confusion about the Provincial Auditor's authority and responsibility when the Government appoints its own auditor to audit a government agency. In February 1994, in response to a Standing Committee on Public Accounts recommendation, the Crown Investments Corporation of Saskatchewan (CIC) and the Provincial Auditor established a Task Force to clarify the roles, responsibilities, and duties of auditors. The Task Force reported to the Committee on October 27, 1994. The Chair of the Task Force advised the Committee that the Task Force concluded: ▪ The Assembly created one overall auditor, the Provincial Auditor, to audit the accounts of the Government of Saskatchewan ▪ The duties and responsibilities of the Provincial Auditor, as defined in *The Provincial Auditor Act*, apply to the audits of commercial Crown corporations, either directly or through reliance on appointed auditors. ▪ Audits, whether done by the Provincial Auditor or appointed auditors, ultimately must satisfy the needs of the Assembly. The Chair of the Task Force also advised the Committee that the conclusions formed the basis for the recommendations of the Task Force. On October 27, 1994, the Committee agreed with the Task Force recommendations. The Task Force protocols have operated satisfactorily for several years. The protocols relate to how audits are planned, carried out and reported to satisfy the needs of the Assembly. The Act should include the Task Force's protocols and conclusions.	The Act should make it clear that the Provincial Auditor shall report to the Assembly on all government organizations regardless of whether or not the Government has appointed its own auditor to audit an organization. The conclusions and recommendations of *The Report of the Task Force on the Roles, Responsibilities and Duties of Auditors* should be included in the Act.
2. At times, there is confusion about the Provincial Auditor's authority to examine and report on government organizations established under a business corporations act or *The Non-profit Corporations Act, 1995*. When government officials do not allow the Provincial Auditor to examine these organizations, the Assembly does not receive the information it requires for holding the Government accountable for its performance.	The Act should make it clear the Provincial Auditor has the authority to audit all government agencies that are owned or that may be controlled by the Government.
3. The Government is carrying out more of its programs in partnerships. There may be confusion in the future about the Provincial Auditor's authority to examine and report on cost and revenue sharing programs carried out in partnership with other jurisdictions and other levels of government.	The Act should provide the Provincial Auditor with authority to examine partnerships with other jurisdictions and other levels of government.
4. The current Act does not ensure the Provincial Auditor's authority to examine the management practices of recipients of transfer payments to ensure public money is safeguarded and spent for the purpose intended.	The Act should provide the Provincial Auditor unrestricted access to the officials and the accounts of recipients of transfer payments.

The Assembly's Risks	Why the Act should address the risks
5. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should ensure the Provincial Auditor shares the same values as the Assembly.	Shared ethical values influence everything an organization does. The Assembly and the Provincial Auditor should share the same ethical values for public sector conduct. Setting out in law, what values the Assembly wants the Provincial Auditor to have will help ensure the Provincial Auditor discharges responsibilities and exercises authority following the Assembly's values. Ethical values for the conduct of public business include selflessness, integrity, objectivity, accountability, and leadership.
6. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should ensure that the Provincial Auditor enjoys the protection of the Assembly.	The Provincial Auditor should be an Officer of the Legislative Assembly. This way the Provincial Auditor enjoys the protection accorded to the Assembly's Officers by *The Legislative Assembly and Executive Council Act*. A committee of the Assembly should select and recommend to the Assembly a person for appointment as Provincial Auditor to ensure the Assembly is involved. The Standing Committee on Public Accounts is the appropriate committee to select the Provincial Auditor as this Committee must work closely with the Provincial Auditor. Also, The Act should set the Provincial Auditor's salary. This ensures the Government and committees and boards of the Assembly cannot change the Provincial Auditor's salary. The Provincial Auditor needs the protection of the rules of the Assembly, which ensure a full public debate of the Provincial Auditor's salary. All of these protections will help ensure the Provincial Auditor can examine and report on difficult issues in a credible manner. To be of value, the Provincial Auditor must be truly independent and perceived to be independent.

How the current Act manages the risks	Recommendation for change to the Act
The current Act does not explicitly set out the ethical values the Assembly expects of the Provincial Auditor for the conduct of public business.	The Act should clearly set out the ethical values the Assembly wants the Provincial Auditor to have for the conduct of public business.
The current Act makes the Provincial Auditor an Officer of the Assembly. The current Act does not make the Standing Committee on Public Accounts responsible to select and recommend to the Assembly a person for appointment as the Provincial Auditor. Currently, the Act states Cabinet selects and appoints the Provincial Auditor. The Provincial Auditor's salary has the protection of the Assembly because the Act sets the Provincial Auditor's salary. The salary is currently set at the average salary of all Deputy Ministers to recognize the importance of the position in relation to government officials.	The Act should require the Standing Committee on Public Accounts to select and recommend to the Assembly a person for appointment as Provincial Auditor.

The Assembly's Risks	Why the Act should address the risks
7. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should ensure the Provincial Auditor has the required resources.	The Assembly should influence the amount of resources for the Provincial Auditor that is included in the Estimates. Also, to prevent a conflict of interest, members of the Executive Council or Government-appointed officials should not have the ability to influence or be perceived to influence the amount of resources for the Provincial Auditor that is included in the Estimates. The Standing Committee on Public Accounts is made up of elected members that are not members of the Executive Council. In 1983, the Committee changed its rules for membership to recognize a conflict of interest if members of the Executive Council sat on a committee charged with holding the Executive Government accountable. Before this change, members of the Executive Council were members of the Committee. The Committee is the appropriate committee to review and recommend the Provincial Auditor's resources. Currently, the Board of Internal Economy recommends our resources. This Board includes members of the Executive Council. Also, under the Act we have to audit the accounts of the Board. Also, the Assembly should provide the Provincial Auditor with flexibility to react to unforeseen issues that the Provincial Auditor must examine (e.g. Channel Lake and the closure of the Plains Health Centre). To provide this flexibility, the Act needs to provide the Provincial Auditor with the autonomy to use revenues such as audit fees and to retain unspent resources at the end of a fiscal year to pay for the costs of audits. The Assembly can control the amount of unspent resources the Provincial Auditor has through the annual amount included in the Estimates for the Provincial Auditor. We note the Assembly has given many government agencies the autonomy to use revenues and unspent resources from previous years to carry out their responsibilities so they have the flexibility to do their jobs effectively.

How the current Act manages the risks	Recommendation for change to the Act
The current Act does not require the Standing Committee on Public Accounts to decide the Provincial Auditor's resources that are included in the Estimates the Government presents to the Assembly.	The Act should require the Standing Committee on Public Accounts to recommend the resources for the Provincial Auditor.
Similar to many government agencies, the Act gives the Provincial Auditor the authority to receive other revenues, to use those revenues and to retain unspent resources.	No change recommended.

The Assembly's Risks	Why the Act should address the risks
8. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should ensure the Government and the Assembly's committees and boards cannot intrude on the Provincial Auditor's responsibility to decide what should be audited and how it should be audited and reported to the Assembly.	If the Assembly is to receive independent and relevant advice, the Provincial Auditor must have the autonomy (independence) to decide what audit work needs to be done and how the work is carried out and reported to the Assembly (i.e., the work plan). The Act must ensure the Provincial Auditor is truly independent of the Government and its appointed officials in deciding the work plan. Also, the Act must ensure the Provincial Auditor can decide the work plan without interference from the Assembly's committees and boards. A key safeguard for ensuring the Provincial Auditor can examine and report difficult issues in a credible manner is the protection of the rules of the Assembly which ensure a full public debate. If those that are audited by the Provincial Auditor decide the Provincial Auditor's work plan, they have a conflict of interest. Also, if others decide the Provincial Auditor's work plan, the Provincial Auditor is no longer accountable for the work plan. To obtain the views of the Assembly on the adequacy of the work plan, the Standing Committee on Public Accounts should review the plan. The Committee should advise the Provincial Auditor what changes to the plan would help the Committee carry out its mandate.
9. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should ensure the Government and the Assembly's committees and boards cannot interfere with the Provincial Auditor's authority to decide and acquire the necessary people and tools needed to meet the Assembly's objective.	If the Assembly is to receive independent, reliable, and relevant advice, the Provincial Auditor must have the autonomy (independence) to decide and acquire the necessary people and tools that are needed to do the job properly. The Act must ensure the Provincial Auditor can acquire the necessary people and tools without interference from the Executive Government and its appointed officials and committees and boards of the Assembly.

How the current Act manages the risks	Recommendation for change to the Act
The current Act provides the Provincial Auditor with complete independence from the Assembly's committees and boards and the Government. The Provincial Auditor decides what is to be audited and how the audit is carried out and reported to the Assembly (i.e., the work plan). The current Act attaches conditions and allows the Provincial Auditor to refuse assignments requested by the Assembly's committees and the Government. This was done to ensure the Provincial Auditor was not diverted from doing the primary work set out in the Act.	No change recommended.
The current Act gives the Provincial Auditor the autonomy to decide how best to spend the resources available to obtain the required people and tools to do the job properly.	No change recommended.

The Assembly's Risks	Why the Act should address the risks
10. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should ensure the Provincial Auditor has access to people, places, documents, and electronic information to provide the Assembly with the information it requires.	The Provincial Auditor needs unrestricted access to officials and accounts that the Provincial Auditor is required to examine to provide the Assembly with the required information. If government officials do not give the Provincial Auditor access to accounts they manage (e.g., the First Nations Fund), the Act should impose penalties on those officials.
11. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should ensure the Provincial Auditor provides reliable information to the Assembly.	The Act should require the Provincial Auditor to adhere to rigorous auditing standards to ensure the information provided to the Assembly is reliable. Currently, The Canadian Institute of Chartered Accountants sets generally accepted auditing standards for the private and public sectors.
12. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should provide for the periodic renewal of the position of Provincial Auditor.	The Provincial Auditor should be appointed for a fixed term. Appointing the Provincial Auditor for a fixed term provides for the periodic renewal of the position of Provincial Auditor to bring new ideas to the operation of the Office. The term should be long enough so that the Provincial Auditor can effect positive change to the Government's management of public resources. Making a difference to the way the Government manages public resources can take many years.

How the current Act manages the risks	Recommendation for change to the Act
The current Act provides the Provincial Auditor with adequate access except for access to recipients of transfer payments. However, the Act does not impose penalties on officials who restrict the Provincial Auditor's access.	The Act should provide the Provincial Auditor with access to the people, places, documents, and electronic information of recipients of transfer payments. The Act should state that officials who fail to provide the Provincial Auditor access to the accounts they manage are deemed to have obstructed an Officer of the Legislative Assembly in the discharge of the duties required by the Assembly. The Act should then require a debate about this matter as provided for by *The Legislative Assembly and Executive Council Act*.
The current Act ensures the reliability of the information the Provincial Auditor provides to the Assembly. The Act requires the Provincial Auditor to be a Chartered Accountant. The Act also requires the Provincial Auditor to follow generally accepted auditing standards as prescribed by The Canadian Institute of Chartered Accountants. The Institute of Chartered Accountants of Saskatchewan has processes for ensuring Chartered Accountants do their examinations properly.	No change recommended.
The current Act does not provide for the periodic renewal of the position of Provincial Auditor. The Provincial Auditor is appointed until the Provincial Auditor reaches the age of 65, or the Assembly removes the Provincial Auditor for cause, or the Provincial Auditor chooses to end his or her tenure.	The Act should make the appointment of the Provincial Auditor for a ten-year fixed term. Also, as a transitional matter, the Committee should discuss and decide the date that the current Provincial Auditor's term begins and include that date in any changes to the Act.

The Assembly's Risks	Why the Act should address the risks
13. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should require the Standing Committee on Public Accounts to monitor what is happening within Saskatchewan and in other jurisdictions to re-evaluate the Assembly's objective for the Provincial Auditor.	The Assembly needs to monitor what is happening in Saskatchewan and in other jurisdictions to re-evaluate periodically its objective for the Provincial Auditor. This is necessary to ensure the Provincial Auditor continues to fulfill the Assembly's information needs. The Assembly should require the Standing Committee on Public Accounts to do this because this Committee works most closely with the Provincial Auditor. Also, this Committee's mandate is to hold the Government accountable for its performance.
14. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should clearly set out the Provincial Auditor's accountability to the Assembly for the use of authority and the discharge of responsibilities.	The Act should provide the Provincial Auditor with complete autonomy to discharge the Provincial Auditor's responsibilities. With this autonomy it is important that the Provincial Auditor is accountable for the use of authority and the discharge of responsibilities. An effective accountability relationship should ensure there is: ♦ An agreed upon plan that is clear as to responsibilities, authority, performance expectations, and resources needed; ♦ A reliable report on performance; ♦ A reasonable review of performance. In other sections of this Report, we discussed responsibilities, authority and resources. In this section, we discuss the information the Assembly needs on the Provincial Auditor's expected (planned) performance and actual performance and on the review of the planned and actual performance. To hold the Provincial Auditor accountable, the Act should require the Provincial Auditor to give the Assembly two performance reports. Those reports are a business and financial plan setting out planned performance and an annual report on operations setting out actual performance. The performance reports should include audit assurance from the person who audits the Provincial Auditor that the performance reports are reliable. The Act should also ensure the Assembly receives receive independent, reliable and relevant information about other aspects of the Provincial Auditor's performance (e.g., compliance with the law) directly from the person who audits the Provincial Auditor.

How the current Act manages the risks	Recommendation for change to the Act
The current Act does not require the Standing Committee on Public Accounts to periodically reassess the Assembly's objective for the Provincial Auditor.	The Act should require the Standing Committee on Public Accounts to periodically review the Assembly's objective for the Provincial Auditor.
The current Act does not require the Provincial Auditor to give the Assembly an annual business and financial plan setting out planned performance and an annual report on operations setting out actual performance. The Provincial Auditor currently gives the Assembly these two reports. The Act should require the Provincial Auditor to give these two reports to the Assembly.	The Act should require the Provincial Auditor to give the Assembly an annual business and financial plan and an annual report on operations.
The current Act requires that an auditor appointed by Cabinet audits the Provincial Auditor. By law, that auditor is required to provide independent, reliable, and relevant information to the Standing Committee on Public Accounts about the Provincial Auditor's performance. Also, by law, the auditor that audits the Provincial Auditor has the same authority and responsibility as the Provincial Auditor.	No change recommended.

The Assembly's Risks	Why the Act should address the risks
15. To ensure the Assembly receives independent, reliable and relevant information from the Provincial Auditor about the Government's performance, the Act should require the Standing Committee on Public Accounts to monitor the Provincial Auditor's performance to ensure the Assembly is receiving the information it needs to hold the Government and the Provincial Auditor accountable.	The Assembly needs to monitor the Provincial Auditor's planned and actual performance and to provide advice to the Provincial Auditor to improve performance. This is necessary to ensure the Provincial Auditor provides the Assembly with required information about the Government's performance effectively. To recognize the Provincial Auditor is accountable only to the Assembly, the review should be carried out by a Committee of the Assembly that does not include Cabinet Ministers or Government-appointed officials. The Standing Committee on Public Accounts is the appropriate committee to monitor the Provincial Auditor's performance. The Act should require the Committee to do so and provide the Committee with the authority to acquire the resources to do so effectively.

How the current Act manages the risks	Recommendation for change to the Act
The current Act does not require the Standing Committee on Public Accounts to review the Provincial Auditor's planned and actual performance and to provide advice to the Provincial Auditor.	The Act should require the Standing Committee on Public Accounts to review annually the plan and report on operations with the Provincial Auditor and to provide advice to improve the Provincial Auditor's performance. The Act should also provide the Committee with authority to acquire the resources to do so effectively.

This page left blank intentionally.